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INTRODUCTION

The Indoor Plumbing Rehabilitation Loan Program (IPR) provides 0% interest loans in non-entitlement cities and counties of Virginia to low- and moderate-income (LMI) owner-occupants of substandard housing where indoor plumbing does not exist or where the existing waste disposal system has failed. The program also provides for the general rehabilitation of these units, and for accessibility improvements or relief from overcrowded conditions, as needed, once the primary income, ownership and failed plumbing criteria are met.

The IPR Program was initiated by the Virginia Department of Housing and Community Development and has been in operation since 1989. The program is funded by the Commonwealth of Virginia, and HOME funds provided by the United States Department of Housing and Urban Development.

Over the years, the IPR program has evolved to better meet the needs of its clients and Subrecipients, while upholding programmatic regulations and the major policy tenets of the Board of the Virginia Department of Housing and Community Development. Among those tenets are: 1) only those houses which lack functional indoor plumbing would qualify for assistance; 2) program beneficiaries will repay the loan funds based upon their abilities to pay; and 3) self-help and homeownership opportunities create responsibility for ongoing property maintenance and build assets for lower income participants.

The Department of Housing and Community Development will contract with Subrecipients (local governments, non-profit housing providers, and housing authorities) to administer the IPR program. The Subrecipients are responsible for most program operations including outreach, application intake, beneficiary and property eligibility determination, financial packaging, construction management, and loan servicing. Each Subrecipient has direct ties to the community via its local Rehabilitation Program Oversight Board. Each beneficiary household receives training in home maintenance, cleaning, and budgeting.

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PROLOGUE: EVERYTHING IN A NUTSHELL

This chapter outlines the requirements specific to IPR housing rehabilitation. These projects assist Subrecipients in rehabilitating LMI-occupied housing units to DHCD HQS.

For purposes of clarity, this chapter is divided into the following sections:

- Definitions;
- Icons;
- Housing Rehabilitation;
- Application Process;
- Alternatives to Rehab;
- Rehabilitation Loan Packaging;
- Contracts and Agreements;
- Soliciting and Qualifying Contractors;
- Initial Inspection;
- Temporary Relocation;
- Preparation of Specifications and Bids;
- Bidding and Construction Process; and
- Recordkeeping.
- “Beneficiaries” refers to those LMI individuals or households who choose to participate in, or are directly affected by, the annual IPR program;
- “IPR” refers to the Indoor Plumbing Rehabilitation Loan Program;
- “LMI” refers to low- and moderate-income;
- “LMI persons” refers to persons who are members of a household whose cumulative household annual income is at or below 80% of the median income of the County or City or the non-metropolitan area of the Commonwealth (whichever is greater) in which a CDBG project is located;
- “Subrecipient ” refers to the agency awarded an annual IPR contract;
- “DHCD HQS” refers to the DHCD Housing Quality Standards;
- “HUD” refers to the U. S. Department of Housing and Urban Development;
- “DOL” refers to the U. S. Department of Labor;
- “VDOT” refers to the Virginia Department of Transportation;

Definitions

The following are definitions of words and phrases used throughout this manual:

- “DHR” refers to the Virginia Department of Historic Resources; and
- “PAAO” refers to the Program Administration and Assistance Office of DHCD, which oversees the CDBG program.

Icons

DHCD has attempted to make this manual as *user friendly* as possible. Several icons have been created to enhance your ability to use the manual.

These icons and their meanings are listed below:



Call your DHCD Community Development Specialist (Community Rep) for clarification or further assistance.



A Best Practices suggestion.

✱ **Critical information to be noted.**

Housing Rehabilitation

The phrase “housing rehabilitation” applies to all residential improvements made on private property with IPR funds.

Improvements include housing repairs, bathrooms, wells and septic systems, and residential water and sewer connections.

All rehabilitation work must be done in conformance with the DHCD HQS as found in Attachment 3. Housing rehabilitation projects involving twelve (12) or more units per construction contract must also follow federal labor standards requirements.

Please contact your Community Development Specialist if this is the case.

The primary function of the Program Administrator is to oversee all day-to-day program activities to assure that they are carried out fairly and in conformance with the adopted Program Management Plan. The housing rehabilitation construction process is primarily the responsibility of the Rehabilitation Specialist, but the Program Administrator is expected to oversee the work of the Rehabilitation Specialist.

Implementation

Every IPR Program must have a Housing Rehabilitation Oversight Board. The main functions of this Board are:

- Monitor progress and performance;
- Approve applicants selected for assistance;
- Approve pre-qualified contractors to bid on houses to be rehabilitated;
- Approve contractor bids; and
- Resolve complaints and disputes that arise during the project.

The Housing Rehabilitation Oversight Board should meet regularly (monthly is expected) and be constantly updated and engaged in the implementation of the IPR Program.

The primary function of the Program Administrator is to oversee all day-to-day program activities to assure that they are carried out fairly and in

conformance with the approved Program Management Plan and DHCD program requirements. The housing rehabilitation construction process is primarily the responsibility of the Rehabilitation Specialist, but the Program Administrator is expected to oversee the work of the Rehabilitation Specialist.

Application Process

Designing a set of application procedures which are comprehensive and fair is a fundamental prerequisite to a successful program. The Subrecipient's procedures must be simple enough so as not to discourage participation in the program. However, they must contain enough safeguards to ensure each application is judged by the same set of standards.

Soliciting Applicants

All households within the locality to be served must be informed of the availability of assistance, procedures on how to apply, and the criteria and procedures for providing assistance.

One of the most effective methods to notify potentially eligible applicants about participation is by enlisting the assistance of local newspapers. News stories describing the benefits and procedures of the program can be helpful. Newspaper advertisements are required before issuance of the IPR Contract.

Outreach to social service agencies, senior citizen and church groups are also helpful. In many cases when people are uncertain of a "government" program the assurance of a trusted person such as a friend or clergyman is helpful.

Finally, if there are significant numbers of illiterate persons in the project area or if response is low, it is important that specific targeting be done. It may be necessary to directly visit targeted households (elderly, disabled or uneducated households) to enlist their participation.

Accepting Applications

Before accepting applications, Subrecipients will need to decide at what times and place applications will be taken. It is recommended that Subrecipients take applications at specific predetermined hours at a convenient location so as not to disrupt other work activities and create a scheduling conflict for applicants. Once the decision is made it should be advertised with other program information.

There will be applicants who, due to working hours, age, or disability, may not be able to appear at your regular office during normal working hours. For this reason, DHCD suggests that Subrecipients consider taking applications at times and locations that will provide many opportunities for all potential applicants.

Screening Applicants

One of two methods of pre-qualifying or screening applicants is generally used in programs. The first method is the use of a short form application that determines whether a household appears to meet the basic eligibility criteria. The applicant fills out and submits the short form to the Program Administrator or designated Intake

Surveyor, who determines whether the applicant proceeds to the full application stage or, based on the information provided, is ineligible for assistance.

The second method of screening is to have all potential applicants meet personally with the Intake Surveyor. If the interview indicates that the applicant is probably eligible, either the full application may be taken at that time or an appointment is made to take the full application at a later date.

Completing the Application

Once preliminary eligibility has been established, a person is ready to complete a full formal application. It is required that the application be filled out by the Intake Surveyor during an interview. By doing this, the Subrecipient will eliminate inaccurate information due to misunderstanding of the questions by the applicant which could result in time consuming revisions.

The application should contain the following information:

- Name, address and phone number;
- Household composition (identified by name, age, relationship to applicant and employment status);
- Race, ethnicity, and disability status of household members;
- Source and amount of income for all household members, including the name, address, and phone number of all employers to all household members;
- Description and amount of all household assets, including name and account number of financial institutions;
- Length of homeownership;
- Mortgage and or lien holders, including the terms and monthly payments and account numbers;
- Homeowners insurance coverage, including the name of insurance company and annual premiums and policy expiration date;
- Medical and other program allowed deductions;
- Utility types and average monthly cost;
- List of property improvements needed;
- Above the signatures a statement stipulating the right to verify all information given with warning: **"It is a violation of Federal Law and a Criminal Offense to make willful false statements or misrepresentations in the completion of this application for assistance;"** and
- Signature of applicant(s) and persons completing the applications.

Conducting the Interview

During the interview, explain the purpose of the application, how it will be processed and that all information

will be verified. Emphasize also that all application and verification information will be kept strictly confidential.

☒ Be alert to discrepancies in information presented that may signify a possible omission. Probably the most common error or misrepresentation made by an applicant is the omission of a source of income or asset. Tactfully ascertain from the applicant whether they have omitted such information.

At the end of the interview, ask the applicant to carefully read the warning about misrepresentations. Both the applicant(s) and the Intake Surveyor must sign the application form.

☒ The interview is a good opportunity to explain again the program's purpose and requirements, including that this is not rehabilitation for aesthetic purposes. Also of particular note are ability-to-pay, junk and debris removal and Home Maintenance Education Program (HMEP) requirements. At this time, the Subrecipient should supply the applicant with a copy of the complaint and appeals procedure.

Income and Asset Verification

All income and asset information must be verified by third party documentation. Gross income of the household from the previous year must be used. Ten percent of liquid assets or actual interest earned must also be counted as income and added to the gross income of a household.

For each type of verification, the program should develop a form letter which explains that the applicant wishes to participate in the program and verification of income and

assets is required for participation. It should be formatted such that it has

- Blanks for the information to be filled in,
- A place for the person providing the information to sign, and
- The signature of the applicant.

☒ DHCD recommends that Subrecipients first telephone the firms or institutions being sent the income verification form in order to explain the request. The Subrecipient should also enclose a self addressed stamped envelope with the verification form. Employers and banks are more willing to cooperate in verification requests the less cumbersome it is for them to do so.

W-2 forms or independently certified tax statements may be used to verify income only when the Subrecipient has failed to receive cooperation from the employer.



Call your DHCD Community Development Specialist for guidance if none of these verification methods are successful.

☒ DHCD recommends that Subrecipients verify that applicants are current on their mortgage payments just before the construction contract is executed, especially if there has been a lengthy gap between the application process and the start of construction.

Federal Equal Credit Opportunity Act

Along with the application and income verification letters, applicants must sign an *Acknowledgement of Receipt of ECOA Notices and Disclosures* form. See Attachment 22 for a copy of the form.

Selection of Applicants

The Rehab Board must review and approve eligible applicants based on the priority criteria outlined in the Program Management Plan. The income eligibility must be documented on the form **HUD Household Income Report** for each client, found in Attachment 36.

Ineligible applicants should be notified immediately in writing that they are ineligible and given the reasons for this determination. See also "Complaints and Appeals," as found in Attachment 4.

All eligible applicants must be notified in writing and advised of the next step in the rehabilitation process. Generally the next step would be the initial inspection by the Rehabilitation Specialist and Program Administrator.

Timing of Applications

It is strongly suggested that a "staggered" application system be established. By using this type of system, families who were late in learning of the program's existence will have a reasonable chance of applying for and receiving funding in subsequent rounds of the program. Some programs allow for the one time carryover of unfunded applications into the next round of competition.

Property Ownership and Control

Ownership for all properties, including mobile homes, must be verified and documented so the Subrecipient can ensure that the program is executing a contract with the person(s) who legally own and control the property to be rehabilitated. This assures that the identified, eligible beneficiary will have continued use and enjoyment of the property and that the IPR loan is secured. Establishing property ownership is usually done by obtaining a copy of the deed from the owner and conducting a title search.

DHCD allows less than fee simple ownership if it cannot be documented or achieved. A test for control could be payment of property taxes and insurance for at least the last three (3) years.

Once control has been established, an enforceable Deed-of-Trust must be signed and recorded. However, an attempt must be made to contact, by certified or registered mail, and obtain the signature of all owners on the Deed-of-Trust.

Life estate ownership may be accepted provided that both the owner(s) of the property and the occupant who has the life-rights sign the construction contract, demolition contract and the Deed-of-Trust.

☒ Because of Virginia's inheritance laws, Subrecipients should attempt to get the signature of a spouse on a life-estate gift or demolition contract

regardless if the spouse's name is listed as a property owner.

Should the individual who has life-rights cease to live in the property during the mandatory ten (10) year term of the loan, the owner(s) of the property must either buy-out the loan at full value, less what has been paid or forgiven, or find an eligible LMI occupant for the property.

Title searches are required. A maximum amount of \$750 may be included as legal costs unless the Program Management Plan calls for the actual repayment of a rehabilitation loan. If the beneficiary is repaying the full amount of the loan, not to be confused with a forgivable loan, the legal costs may be shown in the rehabilitation activity as a construction cost.

Property Eligibility

Only houses with no bathroom or a failed absorption system occupied by LMI households that are the household's primary place of residence are eligible for IPR assistance. It is the responsibility of the Program Administrator to ensure that the applicant's property is eligible according to the Certification of Eligibility and the Subrecipient's adopted Program Management Plan. For more information about each type, see Attachment 7: Certification of Eligibility.

Owner-occupied Properties

A property owned by a LMI household that can be rehabilitated to DHCD HQS with a base IPR investment of \$25,000 or less is the primary type of property eligible for housing rehabilitation. The base cost can

be supplemented with "exceptions" that may exceed the base cost limit.

Investor-owned Properties

Rental units are not eligible for IPR assistance. However, if the tenant is in a position to purchase the unit for a nominal sum, then eligibility could be considered. Also, if the home could be purchased and rehabilitated within the DHCD established cost limits, then eligibility could be considered. This constitutes "homeownership creation" which is another goal of the IPR Program. Please consult your CD Specialist to seek guidance and approval when feasible if this situation occurs.

Contract Purchase Properties

In this situation, a LMI tenant is permitted to purchase a property directly from the investor-owner with little or no interest rate.

Heir Properties

An heir who can demonstrate control over a property and the likelihood of continued occupancy can receive assistance under certain circumstances.

Life Estates

As discussed earlier, LMI households who have a life estate that was recorded prior to the construction contract's execution are eligible if the Program Management Plan allows this type of property to be rehabilitated. DHCD must be notified in writing of any change in a beneficiary's life estate status.

Mobile Homes

Owner-occupied mobile homes are eligible for IPR assistance provided they lack a bathroom or have a failed absorption system as defined in the Certification of Eligibility, and the cost of the rehabilitation will not exceed the cost limits for mobile homes. If the rehabilitation costs exceed these limits, the mobile home must be substantially reconstructed with a stick-built unit. The use of mobile homes to replace a mobile home or a stick-built home may occur only with prior DHCD approval.

A copy of the DMV title must be placed in the client rehabilitation file.

Cost Feasibility Evaluation

At this point in the process, some Subrecipients will ask the Rehabilitation Specialist to conduct a preliminary inspection. The purpose of the preliminary inspection is twofold. First, it confirms that the unit fails DHCD HQS inspection and is eligible for IPR assistance. Second, it confirms that the required work can be completed within DHCD's program parameters and in accordance with the local Program Management Plan. In particular, the Program Administrator and Rehabilitation Specialist can proceed with confidence that the cost of the work will not exceed funds available or determine that additional or other housing resources are needed to assist the household.

Construction Cost Limits

Subrecipients may use a base cost of up to \$25,000 to rehabilitate houses, not including mobile homes, to DHCD HQS and up to \$70,000 to substantially reconstruct

housing units determined to be unsuitable for rehabilitation. Under certain circumstances, DHCD will allow a base cost of up to \$35,000 for a single rehabilitation. These circumstances are:

- The Subrecipient tests for the presence of lead-based paint, as outlined in the lead related regulations, and all tested surfaces in a unit reveal no lead; or
- The Subrecipient has at least four (4) licensed lead abatement contractors who are qualified to bid on the job in question; or
- The unit was constructed after 1978.

✱ **To find out if a lead abatement contractor has a DPOR license, call 804-367-8511 or go to www.dpor.virginia.gov and click on "License Lookup. Click on "Asbestos, Lead and Home" for the LBP abatement training schedule.**

Exceptions

Exceptions allow the Subrecipient to commit funds, beyond the base construction cost, to the completion of the project. The following activities are considered exceptions:

- Construction of a bathroom when rehabilitating a unit that lacks one;
- Installation of a well and/or septic system. IPR funds may not be used to install "pump and haul" systems. Wells must be drilled,

tested and approved. Payment will be made for only one (1) well, regardless of the number of wells drilled;

- Houses that require alternative septic systems are eligible for an additional \$10,000 in exceptions (for additional costs for the design and installation of an alternative septic system);
- Provision of ramps and other accessibility features;
- Provision of one or more additional bedrooms to relieve an overcrowded situation in which more than two (2) bedrooms are necessary or other changes to a unit's footprint;
- Actual laboratory costs for evaluation of lead tests; and
- Housing rehabilitation flood proofing solutions. Flood proofing solutions are defined to include house elevations; the elevation and relocation of utilities; the addition of basement sump pumps with backup generators; the reinforcement of basement doors and dry flood proofing methods as appropriate with the building code.
- Construction related to asbestos abatement and/or disposal.

✱ All exceptions must be listed as alternates on the bid form, but they must be contracted out separately from the base construction costs. Failure to do so may result in the ineligibility of the entire project.

Administrative Cost Limits

Administrative costs are limited up to \$4,000, not exceeding the limits found in Attachment 35: 2013 Rehabilitation Cost Limits. They include outreach and intake, income eligibility verification, title issues, deed recordation and staff time for delivery of Home Maintenance Education Program activities. IPR funds cannot be used to insure the house's contents.

Construction-related Soft Costs

CRSC include fees for rehab specialists, engineers, architects, property survey costs, inspections, blower door tests, soil evaluation tests and lead clearance tests. Additionally, crucial non-housing activities or non-construction housing support activities that will clearly complement the housing improvements taking place. IPR participation in these activities shall not exceed \$4,000 for houses with no bathroom and \$3,500 for those with a failing absorption system.

Demolition Cost Limits

Demolition costs are only allowed on substantial reconstruction projects. They are "stand alone" costs that must be contracted out separately from the base construction and exceptions contracts. Although there are no cost limits for demolition, DHCD expects them to be reasonable. DHCD reserves the right to cap or cut costs, if necessary.

Temporary Relocation Cost Limits

IPR funds may be used to cover eligible temporary relocation costs up to \$2,000 per unit. Eligible temporary relocation expenses include motel and storage costs but not expenses incurred by family members with whom beneficiaries are staying. If the Subrecipient does not incur any actual relocation costs, the \$2,000 is not available. The Subrecipient needs prior approval from DHCD to exceed the \$2,000 cap.

Home Maintenance Education Program Cost Limits

Once the HMEP is incorporated into the local Program Management Plan, up to 1% of base construction costs per unit, not to exceed \$250, is allowed. HMEP costs must be based on actual documented costs and must be drawn down with the final request for the unit. These costs are not intended to cover staff or Rehabilitation Specialist time for delivering training. Rather, they are intended to cover items such as printed materials (but not copying), cleaning kits and tool kits.

Mobile Home Cost Limits

Mobile homes may be rehabilitated provided the cost of rehabilitation will not exceed \$10,000 plus \$10,000 for water and wastewater installation. No other exceptions apply.

These cost limits are not applicable to a double-wide or equivalent with a continuous foundation on footers, which for these purposes only, are considered a permanent home.



Call your DHCD Community Development Specialist if the mobile home was once a single-wide, but has had a permanent structure attached to it and is on a continuous foundation. DHCD must be consulted to determine the eligibility of this property for participation in the program.

Alternatives to Rehab

In some cases, it will be necessary or advisable to consider alternatives to rehabilitating a house. Alternatives may be necessary due to the cost of rehab, the site or condition of the original structure, or household circumstances. The most typical alternatives are permanent voluntary relocation, partial rehabilitation and substantial reconstruction. Finally, there may be other considerations that affect a Subrecipient's dealings with a potential beneficiary.

Permanent Relocation

In some instances, whether by design or upon encountering an infeasible property, Subrecipients may need to consider relocation of a family from a house that qualifies for substantial reconstruction. The relocation could be into a house with no DHCD HQS violations or to a house that will undergo rehabilitation to bring it within the DHCD HQS pass zone.

If the property to which the owner occupied family is being relocated will require repairs to meet the DHCD HQS, the cost of the repairs must be counted as part of the approved "Uniform Act" relocation payments (excluding moving

expenses). The house being vacated must be demolished within thirty (30) days of the Certificate of Occupancy being issued.

Relocation requirements may be discussed in more detail with your CD Specialist.

Partial Rehabilitation

In certain circumstances, the Subrecipient may find that some properties are unsuitable for rehabilitation only because they will exceed the base \$25,000 cost limit and not because significant structural damage requires demolition. While these houses may exceed the cost limits, there may be several reasons why it is not desirable to demolish the structure and replace it with a new one. In such cases, the structure may be partially rehabbed so that all portions of the structure that are used daily by the occupants are brought to DHCD HQS. Those portions of the house which do not receive rehabilitation *must* be closed off and remain unused. Cost limits imposed on those properties deemed suitable for rehabilitation must be used.

✱ All cases of Partial Rehabilitation must be approved by DHCD in advance of the execution of a construction contract.

Substantial Reconstruction

If a Subrecipient encounters a family in a house that needs to be substantially reconstructed and it can be done within DHCD cost limits, the Subrecipient may construct a dwelling, demolishing the existing structure. Houses proposed for substantial reconstruction must receive DHCD approval prior to work beginning by way of the Substantial Reconstruction Worksheet found at Attachment 24.

DHCD's policy for allowing the cost of "Substantial Reconstruction" of housing is as follows:

- The house must be owner-occupied;
- Substantial Reconstruction is a last resort after rehabilitation and relocation have been explored and documented as infeasible;
- The Subrecipient's Program Management Plan must have clear definitions of both "Suitable for Rehabilitation" and "Unsuitable for Rehabilitation." The house to be reconstructed must be documented clearly as "Unsuitable for Rehabilitation" and must be demolished within thirty (30) days of the Subrecipient's Final Acceptance of the replacement structure;
- Demolition means the dismantling, razing, and deconstruction of stick-built and mobile homes approved for substantial reconstruction so that the demolished house cannot be reused in any way. Demolished materials must be disposed in a landfill and/or salvaged for scrap.

It is the responsibility of the Rehab Specialist and the Program Manager to verify that said demolished units comply with these guidelines.

- In the case where a contractor has physically begun rehabilitation and it is discovered that conditions are worse than expected making the

property "unsuitable for rehabilitation" by the local definition, the Subrecipient may terminate the contract and proceed with "substantial reconstruction" after submitting and having approved a written request to DHCD which explains the situation. All work must be completed within DHCD cost limits;

- For properties which are determined to be "unsuitable for rehabilitation" the following process must be followed;
- The Rehabilitation Specialist must prepare a written itemized cost estimate of the repairs needed to bring the house to DHCD HQS and the cost must clearly exceed the limitations in the Program Management Plan, or the Rehabilitation Specialist must document that a structural condition exists which clearly causes the property to meet the definition of "Unsuitable for Rehabilitation" as set forth in the Plan;
- The Rehabilitation Specialist must prepare plans and specifications for the proposed substantially reconstructed house, and either prepare an itemized cost estimate or secure bids from contractors and suppliers of the cost of the proposed house;
- The cost of the proposed substantially reconstructed house must be less than the estimated cost of rehabilitating the existing house;

- The Subrecipient must submit to DHCD the Substantial Reconstruction Worksheet which provides the cost comparisons listed above. Attached to the worksheet the Subrecipient must submit the rehabilitation cost estimate (or description of the structural defect making the property unsuitable for rehabilitation) and the basis for the cost estimate of construction of the reconstructed house. In addition, a sufficient number of photos of the house proposed for demolition to document the interior and/or exterior condition of the house. See Attachment 24 for a copy of the worksheet; and
- The substantially reconstructed home may be either stick built or a modular home which meet the Virginia Uniform Statewide Building Code (USBC).

Rehabilitation Loan Packaging

DHCD requires that all housing assistance be provided in the form of a loan. The amount of the loan is based upon the cost of the housing rehabilitation. The repayment of the loan is based on the ability-to-pay of the beneficiary household and must be calculated according to the *Ability-to-Pay Worksheet (Attachment 17)*.

Minimum Repayment Requirements

All housing rehabilitation projects must abide by the following requirements related to repayment of loans:

- All rehabilitation loans must be secured by a ten (10) year recorded Deed-of-Trust.
- The Deed-of-Trust must be tied to a promissory note (Deed-of-Trust Note) requiring that the beneficiary make 120 monthly payments over ten (10) years at 0% interest;
- The amount the beneficiary pays is determined by the ability-to-pay calculation:
- Beneficiaries must pay 25% of their monthly income towards their housing costs. "Housing costs" include rent or mortgage, utilities (See Attachment 18 for a copy of the required *Utility Fee Schedule*.), taxes and insurance. If these costs are less than 25% of the household income, the difference is the ability-to-pay or repayment amount. See Attachment 17 for more details on how to calculate the ability-to-pay amount;
- The difference between what the beneficiary pays as determined by the ability-to-pay calculation and the actual amount of the amortized loan is forgiven each month;
- The forgivable term must run concurrent with the repayment period;
- The beneficiary's ability-to-pay may be reviewed on an annual basis. It must be reviewed if the composition of the household changes or if requested by the beneficiary, and the monthly payment toward the loan payment adjusted accordingly;
- Beneficiaries must agree, in writing, to reside in the property rehabilitated for the entire term of the loan;
- If the beneficiary fails to meet the obligation set forth above, all outstanding IPR loan monthly loan amounts may be added to the end of the amortization period with no forgiveness for the month in question;
- In the event of a sale of the property before the term of the loan has ended, the outstanding amount of the loan must be repaid;
- In the case of death or institutionalization of the owner, the heirs may rent the property to allow an LMI family to reside in the property if approved by DHCD. If the beneficiary had life-rights to the property, the owner may either buy-out the loan at full value, less what has been paid or forgiven, or find an eligible LMI household to rent the property;
- All housing rehab beneficiaries with an ability-to-pay are expected to pay according to standard terms

and conditions set forth herein. Every household is expected to pay at least, its calculated ability-to-pay amount. A minimum monthly payment amount that exceeds the calculated ATP amount required, may be established. This monthly minimum payment may not exceed \$25.00.

- The Program Management Plan must include special policies for the evaluation of prior, existing debt in the ability-to-pay calculation.

✱ **The Subrecipient must use the *Ability-to-Pay Worksheet* to calculate a beneficiary's ability-to-pay. See Attachment 17 for a copy of this form. When completing this worksheet, the cost of utilities must be calculated using the *Utility Fee Schedule*, which is found in Attachment 18. The difference between the actual amortized loan and the amount forgiven each month is calculated using the *Loan Repayment Worksheet*, which is also found in Attachment 17.**

Loan Servicing

The Subrecipient or a qualified agency or institution which services loans under this program will be under *no liability* for loss of funds due to lack of repayment or default by program beneficiaries.

The responsibility of entities servicing loans is to collect, forgive and otherwise manage payments monthly. The servicing agents are to maintain records of loan balances, final payment due dates, and to make a good faith effort to collect delinquent loans.

Collection of delinquent loans may be conducted according to local policy (up to

and including foreclosure) but must adhere to all requirements under State and Federal law related to the collection of delinquent or bad debts.

✱ **The Subrecipient must issue an annual payment history statement to each beneficiary regardless of ability to pay.**

Contracts and Agreements

After all selection criteria have been satisfied and a contractor has been selected, all parties must enter into a contract(s) prior to the issuance of a Notice to Proceed. Depending upon the nature of the assistance, several documents may be executed at this time. These are the construction contract, the "exceptions" contract, the demolition contract, the Deed-of-Trust or the security instrument, and Deed-of-Trust Note or the promissory note. A Deed-of-Trust must be executed and recorded prior to construction on all rehabilitation contracts. Provisions of the Deed-of-Trust may require that a Note be recorded with a credit balance provided to the owner at the conclusion of the construction contract. This should eliminate the need for amendments to the mortgage instrument as a result of change orders.

Construction Contract

For each IPR project, two or more construction contracts may be required. The first one is for the base construction costs and the second one is for the exceptions. For substantial reconstruction projects, the base

construction costs and any necessary exceptions can be combined into a single contract. Regardless of the number of contracts executed, cost limits per category must not be exceeded.

As mentioned earlier, demolition costs are only allowed on substantial reconstruction projects. They are “stand alone” costs that must be contracted out separately; this is a potential third contract.

Each contract should include an agreement with general conditions, federally-required closing documents and federal construction contract language. The Rehab Board should have an attorney review and approve the contract used in the program. The attorney should be advised of DHCD recommendations and requirements.

✱ Any work performed on a pre- 1978 single family dwelling may not exceed a base cost of \$25,000 unless the contractor is a licensed lead abatement contractor. If at least four (4) licensed lead abatement contractors are solicited, and one (1) of them is the successful bidder, the base contract may go up to \$35,000.

The following provisions must be included in the construction contract:

- Date of contract;
- Date (or number of days) until construction is to begin;
- Completion date;
- Amount of contract;
- Method of payment, including timing of progress payments and homeowner’s role in approving all contractor payments;
- Contractor's name, address, DPOR license and/or registration number, expiration date, license classification (a, b, or c), and license designation (building [bld] or home improvement contracting [hic]);
- Reference to master and job specifications;
- Contractor’s removal of debris and equipment during and after construction, as applicable;
- Contractor’s use of homeowner’s utilities;
- Contractor’s insurance requirements;
- Access to property by contractor and program officials;
- Warranty requirements;
- Non-assignment of contract clause;
- Hold harmless clause;
- Right of inspection - power of inspector;
- Statement of compliance with all local requirements for building permits, inspections, and zoning;

- The Owner's pre-construction clean up requirement;
- The Occupant's home maintenance education program attendance requirements;
- The Owner's resale or residency requirements;
- Termination clause;
- Change order procedure;
- Restrictions on side deals between the homeowner and the contractor;
- A "plain-language" exculpatory clause concerning events beyond the control of the Contractor and a statement explaining that delays caused by such events do not constitute abandonment and are not included in calculating time frames for payment or performance;
- Signature of parties to the contract;
- *Federal Construction Contract Language* attachment; and
- *Notice of Lead-Based Paint Presumption and Confirmation of Receipt of Lead Pamphlet*, if applicable.

It is a local Management Plan decision if the construction contract will contain a provision for liquidated damages.

All of the items may be incorporated into a two-party contract between the homeowner and the Subrecipient

(Homeowner Agreement) and a two-party contract between the Contractor and the Subrecipient (Construction Contract) or a three-party contract between the homeowner, Subrecipient and contractor. Most Subrecipients use a three-party contract.

Federal Construction Contract Language

All housing construction contracts must incorporate or attach the *Federal Construction Contract Language for Housing Rehab*. See Attachment 27 for a copy of the language.

Deed-of-Trust

The *Deed-of-Trust* is a security instrument that secures the beneficiary's commitment to adhere to the loan, resale, and residency requirements to the title of the house and property, and references the Deed-of-Trust Note.

A Deed-of-Trust must secure all loans, including loans to heir-occupied and life estate properties. It must cover the cost of all improvements, including any exceptions and demolition. In addition to referencing the amount of assistance, the agreement should incorporate the following:

- The complete address of the Trustee;
- Terms of the loan;
- Deed-of-Trust Note or loan agreement;

- Payment of Debt, Taxes and Utility Charges;
- Maintenance of property during term of loan;
- Program's role in inspecting and approving work and payments;
- The Owner's requirement to obtain adequate hazard insurance, with the Subrecipient listed as a loss payee;
- The Owner's requirement to obtain an annual septic maintenance agreement, as required by the Virginia Department of Health for alternative septic systems;
- Resale and residency requirements;
- *Notice of Right to Cancel* attachment; and,
- Truth-in-Lending Disclosure Statement attachment.

☒ It is recommended that the Deed-of-Trust prohibit the house from being used as bond security so someone can get out of jail while awaiting trial.

☒ In a life-estate situation, the Subrecipient should check with its Attorney to determine if the Deed-of-Trust should say the estate is encumbered in order to protect the Subrecipient if the beneficiary defaults.

☒ The Deed-of-Trust must be recorded at the courthouse in the county or city where the rehabilitated house is located.

☒ It is recommended that all signatures be notarized and the Deed is recorded immediately after contract execution.

IPR loans may be placed in first, second or third position on a property title. Once recorded, the Subrecipient may not subordinate DHCD's position without its prior written approval. In addition, the project's Program Management Plan must stipulate under what special circumstances subordination will be considered e.g., bankruptcy, removal of code violations, bills due to a medical emergency or educational expenses and that the decision will be made by the Rehab Board with concurrence from DHCD. Furthermore, the Program Management Plan must require that the homeowner will be required to attend instruction on predatory lending prior to intermediary subordination.

See Attachment 20 for a Deed-of-Trust sample.

Deed-of-Trust Note

The Deed-of-Trust Note is a promissory note or the beneficiary's written promise to adhere to all the commitments made in the Deed-of-Trust and stipulates when and how all of the terms of the loan are to be satisfied. The Note must be held in safekeeping i.e. a safe, safe deposit box, or a drawer or cabinet that is routinely kept locked by the Subrecipient until all the terms of the loan are satisfied.

☒ It is recommended that the Note be kept in a safe.

The note should stipulate the following:

- Rate of interest;
- The term of the loan, and the loan due date;
- The amount forgiven each month;
- Late payment and default penalties; and
- Time and location for payments.

At the end of the loan term, the Deed-of-Trust Note must be marked “paid in full”, for all amounts paid and/or forgiven. A *Certificate of Satisfaction* must be issued by the Subrecipient to the homeowner, indicating that the note has been satisfied and all obligations have been met.

☒ It is recommended that the *Certificate of Satisfaction* be sent certified, along with a letter stating that it needs to be taken to the Clerk’s Office. This will give the Subrecipient proof that it released the *Certificate*. Check with your attorney as to how long you have to release the *Certificate* in order to avoid any court fines. See Attachment 20 for a *Deed-of-Trust Note* sample.

Notice of Right to Cancel

This closing document must accompany every Deed-of-Trust and be provided to each beneficiary at closing. As required by Regulation Z of the Truth-in-Lending Act, it allows every homeowner a three-day grace period between the signing of the Deed-of-

Trust and the start of construction to cancel the construction contract. During this time period, no activity regarding this loan may take place. This includes recordation of the Deed-of-Trust and issuance of the Notice to Proceed. See Attachment 19 for a copy of the Notice.

Truth-in-Lending Disclosure Statement

This is another closing document, which must accompany the *Deed-of-Trust Note* and be provided to each beneficiary at closing. It details the exact amount of money borrowed, including any interest charges, payment schedule, prepayment and late payment policies, insurance requirements, and reference to contract, as required by Regulation Z. See Attachment 21 for a copy of the Statement.

Selecting and Qualifying Contractors

The first step in the rehabilitation contracting process is identifying and recruiting good contractors. Begin by determining what qualifications are expected. Remember, your program will only be as good as the contractors who actually do the work.

✱ Good contractors will make a good program, and a good program will attract good contractors. Conversely, by utilizing poor contractors you will deter good contractors and families from participating, as well as creating headaches for yourself.

Any contractor doing work on a housing rehabilitation project funded with IPR monies must be licensed pursuant to the regulations of the Board of Contractors. All licenses must have a classification and a category. The appropriate classifications and categories acceptable for rehabilitation work are outlined below.

Classifications

All contractors must be licensed by the Virginia Department of Professional and Occupational Regulation (DPOR) as a Class A, Class B, or Class C contractor. Most contractors working on housing rehabilitation projects will be Class B contractors. This means they can work on any single job whose total contract value is between \$7,500 and \$70,000 or contracts totaling between \$150,000 and \$500,000 during any twelve-month period.

A Class C contractor may be able to do minor rehabilitation work. The current threshold for these contractors are single contracts between \$1,000 and \$7,500 or contracts totaling less than \$150,000 over a one-year period. It is unlikely that a Class A contractor would bid on housing rehabilitation work as they can do work on single contracts of \$70,000 or more.

✱ To find out if a contractor has a DPOR license, call 804-367-8511 or go to www.dpor.virginia.gov and click on "License Lookup." Subrecipients should also be aware that the thresholds are subject to change by DPOR. Therefore it is prudent to periodically check the current thresholds with DPOR.

Designations

In addition to having a license classification of A, B, or C, each contractor must also have a license designation. General contractors doing rehabilitation work must be designated as either a "Building Contractor [BLD]" or a "Specialty Contractor [SVC]". If a contractor has SVC designation, then he/she must have the specialty service of HIC (Home Improvement Contracting) following the SVC designation i.e., SVC-HIC.

For any electrical work, plumbing work or heating, ventilation and air conditioning (HVAC) work to be done on a house being rehabilitated with IPR monies, the following applies:

- If the respective work e.g., electrical, is \$1,000 or more, the work must be done by a contractor licensed to do that specific kind of work (have the ELE designation on his or her license);
- If the respective work is less than \$1,000, and the Subrecipient participates in the Tradesman Certification Program, the work must be performed by a person who has a Masters Certification in that respective trade; and
- Any digging of wells for potable water service can only be done by a contractor licensed as a "Water Well Contractor (WWC) ," regardless of the cost to dig the well.

Some contractors may have multiple designations on their license such as Building (BLD), Electrical (ELE), Plumbing (PLB), and/or HVAC. If a General Contractor has such multiple classifications, retention of a licensed subcontractor in a related field is not necessary.

Lead Training and Certification

Each contractor, subcontractor and worker must have successfully completed a HUD-approved Lead-Safe Work Practices (LWSP) training course relative to the rehabilitation of housing constructed prior to 1978. The Program Administrator must also obtain verification of EPA “Renovation, Repair and Painting” certification as a firm with a Certified Renovator assigned to the project, and place it in the Pre-Qualified Bidder’s file.

Pre-Qualifying Contractors

Pre-qualification of construction contractors must be done through the use of a standardized application form. Information requested must include:

- Type of work performance;
- Recent projects completed of the type and size to be bid;
- Suppliers and credit established;
- Bank references;
- Insurance coverage;
- Subcontractors utilized and their contractor’s license (Class A or B);
- Number of employees;

- Proof of necessary license (Class A or B); and
- Proof of Lead training.

See Attachment 25 for a Contractor’s Qualification Statement sample. This form should be updated every two years.

Standards for General Contractors

The Subrecipient must develop criteria to evaluate contractors for inclusion or exclusion on the Bidders List. The criteria should allow you to include only legitimate, experienced general contractors with good references and credit histories. The criteria should allow rejection of contractors due to predetermined standards of experience, capability and credit. Job and credit references should be verified. If feasible, the Rehabilitation Specialist should inspect the contractor's most recent work.

It may be necessary to reject contractors due to poor workmanship or bad credit. Additionally, you may want to limit inexperienced contractors to smaller jobs initially or to advise specialty contractors to act as subcontractors to general contractors. Without pre-qualification it is very difficult to limit the involvement of inexperienced or specialty contractors and a multitude of problems may lie in store for both the program and the contractor.

More stringent standards may be required, but must, at a minimum, utilize the following standards:

- Licensed by DPOR as a Class A, Class B, or Class C and licensed in the appropriate trades to be included;
- Documented current personal property liability insurance coverage of \$100,000 property and \$300,000 bodily injury (minimum);
- Good references from at least two (2) jobs similar in work and dollar value to the work on which they are bidding. Subrecipient must document having checked references;
- Have been in business as a General Contractor for at least one year;
- Have an established credit record with no outstanding or pending judgments or claims. Bonding cannot be required if adequate credit is established; and
- Proof of training in Lead-Safe Work Practices, EPA Certified Renovation Firm and Certified Renovator.

All contractors to be included on the Pre-Qualified Bidder's List must be approved by the governing board of the program.

Advertising for Contractors

Solicitation must be made in a newspaper(s) that is generally circulated in the project area. The advertisement must state the following:

- The Subrecipient is operating a housing rehabilitation program;

- The estimated dollar amount of all rehabilitation contracts to be let;
- The estimated number of rehabilitation contracts to be let;
- The general qualifications necessary for contractors to be eligible to bid on rehabilitation work; and
- Where and how contractors may pre-qualify for the bidder's list.

Direct Solicitation of Contractors

Direct solicitation of good, local contractors should be done also. This can be done by posting notices at the County Building Official's office and at local building supply stores or contacting contractors known to the Rehabilitation Specialist.

Contractors' Information Meeting

It is advisable that Subrecipients schedule an annual contractors' information meeting. Such a meeting can be very helpful in creating understanding of the program and securing cooperation between the program and potential contractors.

At the contractors' meeting, the Program Administrator and/or the Rehabilitation Specialist must explain the program and bidding procedures. The standards and master specifications to be utilized in the program are distributed and explained. Procedures for bidding, contract form, and payment, should be fully explained and distributed in writing.

Using the Pre-Qualified Contractors List

Once a list of qualified contractors is established, the Subrecipient may assure a reasonable level of quality control by bidding exclusively from the list, provided:

- All contractors on the list are given a nearly equal number of bidding opportunities,
- There is continued opportunity for additional contractors to apply for pre-qualification and inclusion on the bidder's list, and
- Bids are solicited from at least four (4) contractors for each contract.

Initial Inspections

Once the homeowner's application has been approved, the initial inspections must to be scheduled.

*** The purpose of the initial inspection is to determine deficiencies in the property, which do not meet the DHCD HQS. Both the Program Administrator and the Rehabilitation Specialist are required to do independent initial inspections, using the *DHCD HQS Inspection Checklist and Certification*, which is found in Attachment 3. The Rehabilitation Specialist not only determines what needs to be repaired, but should, by taking notes and measurements, gather enough information to enable him or her to write specifications for the repairs and perform a cost estimate. In addition, a floor plan of rooms where any work is to be done should be produced.**

(Some programs make a preliminary inspection before approval for the purpose of property eligibility and cost feasibility determination. Such an inspection does not serve the purpose of what is referred to here as the "initial inspection.")

Conducting the DHCD HQS Inspection

The Rehabilitation Specialist should introduce him or herself to the property owner, explaining the need for an intensive inspection of all parts of the property and for an interview with the occupants. During this interview, the Rehabilitation Specialist should ask what repairs or improvements the occupant feels need to be made, reminding the homeowner first that the program covers only safety issues and not aesthetics. Special attention should be paid to electric and plumbing problems. Questions about blown fuses and plumbing backups should be asked specifically. The Rehabilitation Specialist should ask about winter heat bills to determine if special attention should be paid to weatherization. At the close of the interview, the Rehabilitation Specialist should ask that the occupant remain available for further questions.

Using the DHCD HQS checklist, the Rehabilitation Specialist should systematically go through the house room by room. Floors, ceiling, walls, windows, and outlets should be checked in all living areas.

All housing components must be compared against the DHCD HQS. See Attachment 3 for a copy.

Lead-based Paint (LBP)

Part of the inspection includes noting any interior or exterior failing paint condition. For the purposes of this program, failing paint includes:

- Paint that is peeling, chipping, pitting or otherwise unstable;
- Finishes on friction and impact surfaces that rub, bind, or crush;
- Finished horizontal surfaces known to have been chewed by a child under the age of 6; and,
- Bare soil onto which deteriorated paint might have fallen.

If no failing paint condition is noted, and no work will be conducted that will disturb more than two (2) square feet of a painted surface, this is documented and no further lead requirements apply.

If a failing paint condition is noted, and the house was built prior to 1978, the Rehabilitation Specialist and the Program Administrator must presume that the failing paint is lead paint. This triggers certain requirements:

- The work write up must incorporate “Interim Controls” and must meet certain lead related reporting requirements as per the terms of the Risk Assessor License;
- The contractor awarded this job must be an EPA Certified Renovation firm and have an EPA certified renovator

assigned to the project who can train the crew in Lead Safe Work Practices;

- The area(s) in which potentially lead-disturbing work occurred must be thoroughly cleaned; and,
- At the completion of the work, the Risk Assessor must complete appropriate clearance testing, and the testing reveal that lead, if present, is within acceptable limits. If not, the area(s) must be cleaned again and additional samples taken.

See Attachment 31 for more details about lead-based paint.

✱ To find out if a Risk Assessor has a DPOR license, call 804-367-8511 or go to www.dpor.virginia.gov and click on “License Lookup.”

☒ DHCD strongly recommends that the Program Administrator, the Rehab Specialist, the Risk Assessor, and the contractor not receive final payment for a unit until the report from the Lead Clearance Test is back and it is okay for the household to move back into their home.

☒ Test children six and under for lead before rehabilitation to prove the construction work did not harm any children in the household (should be free at local health department).

☒ When assisting Spanish-speaking beneficiaries, refer them to the U.S. EPA

Spanish website at www.EPA.gov/Espanol. It contains Spanish language material on lead poisoning prevention.

Asbestos and Asbestos Abatement

There will be a \$500 cap for the initial asbestos inspection fee. IPR Subrecipients may receive up to \$500 in a lump sum amount to have a certified asbestos inspector inspect houses for purposes of major rehabilitation or demolition if substantial reconstruction is involved. Asbestos inspections for rehabilitation are not required by DHCD but are recommended if extensive work on the rehabilitation of a house is to occur. If a house is to be demolished, an asbestos inspection is required by DHCD.

There will be a **\$200 cap for lab tests**. If an asbestos inspection reveals that there are areas where construction is going to occur that appear to include asbestos materials, those need to be tested. The laboratory costs to have the samples analyzed and reported will be reimbursable up to \$200. Because this is a reimbursable expense, actual receipts and results of said tests will be required to document the reimbursement. The company chosen to conduct the analyses will need to be procured in accordance with the Virginia Procurement Act. Should the laboratory costs exceed the \$200 cap, those additional costs must be covered by the initial inspection fee or other non-DHCD funds.

There will be an allowance of **\$100 for the work write-up**. Should the inspection and subsequent lab tests confirm the presence of asbestos, the IPR Subrecipient must include those results in the work write-up. This will include denoting the type, location

and approximate amount of asbestos present that is to be disturbed by the proposed construction. It is up to the contractor to determine how to comply with state and federal law relative to safe work practices and disposal of the asbestos in question based on the information provided.

If no asbestos is found, that should be noted in the work write-up but that would not qualify the IPR Subrecipient to qualify for this \$100 payment. In such cases, the statement must be included in the write-up advising the contractor that he is responsible for compliance with all state and federal laws related to asbestos even though the inspection revealed none to be present.

For those houses not receiving an asbestos inspection, a statement must be included in the write-up to the effect that the Subrecipient does not know whether the dwelling contains asbestos containing materials nevertheless the contractor is responsible for compliance with all state and federal regulations related to asbestos.

If the asbestos inspector is an employee of an IPR Subrecipient, all IPR funds used to pay for the asbestos costs noted must be paid to the IPR Subrecipient, not to the individual inspector.

It is ultimately the responsibility of the contractor to know whether he/she can perform construction activities on structures containing asbestos and if so, how to handle the materials in an environmentally safe manner. The asbestos regulations fall under the enforcement of the following agencies.

Please consult their websites for further guidance.

Virginia Department of Environmental Quality (DEQ) – Information on the regulation of landfills in Virginia and the disposal of asbestos in Virginia landfills – www.deq.virginia.gov

Virginia Department of Professional and Occupational Regulation (DPOR) – Information on asbestos contractors and accredited asbestos training providers – www.dpor.virginia.gov

Virginia Department of Labor and Industry (DOLI) – Information on enforcement of the Virginia Occupational Safety and Health (VOSH) regulations, enforcement of the Environmental Protection Agency’s National Emission Standards for Hazardous Air Pollutants (NESHAPS), and enforcement of the Asbestos Notification regulations found in the Labor Laws of Virginia – www.doli.virginia.gov

Supplemental Inspections

The following supplemental inspections are also required before work on the unit is bid out:

- A termite and infestation inspections by a licensed inspector;
- A chimney inspection; and
- A blower door test both at the beginning and the completion of the project. When the initial blower test is completed, the entity responsible for the test must draft recommended weatherization specifications to be included in the bid specs, in addition to providing a target air exchange rate. The second test must be

completed before completion of punch list items. Blower door tests are not required on houses scheduled for demolition.

Temporary Relocation

Temporary relocation as part of rehabilitation due to a presumption of the presence of lead-based paint (LBP) and use of interim controls is mandatory except in the following circumstances:

- All household members are 62 years or older;
- All interior work will be completed in an eight-hour period;
- All interior work will be completed in five (5) consecutive days and the bedroom(s), bathroom, and kitchen can be isolated from the rehabilitation work; or
- Only exterior work will be done.

☒ Before any beneficiary is temporarily relocated, a written agreement should be signed between the beneficiary and the Subrecipient. This agreement must outline the period of time the beneficiary will be relocated, what expenses will be paid by the Subrecipient, the cost limits for each type of expense, who is responsible for identifying where the beneficiary’s possessions will be stored during the relocation, and who is responsible for placing the possessions in said storage, being mindful of security of stored items.

☒ DHCD encourages Subrecipients to identify creative ways to reduce temporary relocation costs. This may include encouraging households to live temporarily with family and friends or the staggered use of vacant or substantial reconstruction units as temporary dwellings for households. Likewise, Subrecipients might purchase a moveable storage unit that can be placed on site to hold the household's belongings.

Preparation of Specifications and Bids

After the Rehabilitation Specialist and the Program Administrator have developed their respective lists of all of the needed repairs and have met to compare their findings, the Rehabilitation Specialist should begin the task of writing specifications for bidding and carrying out the work.

Good job specifications are an essential element in a successful rehabilitation program. The job specifications are the basis for competitive bidding. They are a part of the contract documents. The job specifications are the basis for resolving disputes and for requiring contractors to fully complete necessary repairs.

Specification Language

Good job specifications have three common attributes: clarity, measurability and specificity.

Master Specifications

The Rehabilitation Specialist must employ master specifications, which are based on the DHCD HQS. See Attachment 3 for a copy of the DHCD HQS. They are a set of standard specifications covering materials, equipment and installation procedures to

be used in your Rehab Program. The master specifications should cover every component of housing construction and for each component should describe in detail the grades and standards of materials and equipment, which the program considers adequate. This description may include brand names or equivalents, and performance standards. For each component e.g., doors, windows, roofing, the master specifications should describe what parts make up the component so when the component is referenced in the job specifications, the contractor will be expected to replace all parts.

The master specifications should also detail construction methods to be used in the installation and repair of all common components so that when the word "install" is used the contractor knows what is expected.

By referencing the master specifications, the job specifications can be shortened considerably while still being descriptive. Of course, if a type of repair is not covered in the master specifications or the Rehabilitation Specialist wishes to provide special emphasis on a certain installation, a detailed description should be included in the job specifications.

☒ All job specifications should state that all work is to conform to the Master Specifications. Many programs provide references to the applicable section of the Master Specifications in the appropriate corresponding section of the job specifications.

☑ Adherence to Green Building practices, where appropriate, is encouraged for rehabilitation. Substantial Reconstruction cost limits provide an additional \$4,000 for homes built to nationally recognized Green Building Standards such as Earth Craft or LEEDS. The standard must be approved in advance of construction start.

DHCD also encourages the use of Energy Star rated appliances whenever economically feasible as they will provide cost savings to your beneficiaries in the long run. For more information, go to

www.EnergyStar.gov,
www.AARP.org/Universalhomes or
www.BuildingGreen.com.

☑ DHCD supports the use of Green Building techniques and Universal Design elements whenever possible i.e. 36" wide doorways, levered entry hardware, low flow toilets and showers, halogen/LED bulbs and thermal/low-e windows. This is particularly applicable where the substantial reconstruction of a unit will be taking place.

Job Specification Format

The Rehabilitation Specialist should use the same format with each bid. Typically, the format would include:

- A cover sheet with all pertinent contact information;
- Paragraphs containing specifications for individual or related repairs. Each paragraph should be numbered and contain an underlined heading that describes either the component or room location of repairs. Interim control measures should be under one heading. Each paragraph should have

a space for the subtotal bid for those repairs;

- The last page should summarize the total bid, making sure to separate base costs from exceptions; and
- Floor plans should be provided, showing the location of all major work in each room.

☑ As with other formal procurements, the bid should include Instructions to Bidders, General Conditions and a Bid Form.

The bids should indicate that the Subrecipient reserves the right to reject bids which are not within 10% of the cost estimate.

Organization of Work Items

The organization of individual work items within the job spec should be decided by the Rehabilitation Specialist. There are two general methods of organizing specification: room by room, and by component. Many programs use a combination of these two methods. Room by room headings are used for all carpentry and room specific repairs. Component headings are used for major systems which affect the entire house or a significant portion of it e.g., electrical, heating, insulation, roofing, etc.

All lead hazard reduction activities or interim controls should be itemized in the write-up so that timeframes coordinating cleaning, clearance testing,

and temporary relocation are identified as needed.

Cost Estimating

Every program must complete a thorough cost estimate for every job it bids before the bid is solicited. The cost estimate should be done by unit cost of each repair and broken out by the same subtotals listed in the bid.

In order to arrive at a unit cost, the Rehabilitation Specialist should utilize experience, reference books and local prices. By experience it is assumed that the person doing the estimating has some contracting experience upon which to assess costs. If the estimator has little or no contracting experience or has experience in only a portion of home repair, he or she will have to rely more heavily on the other sources.

All cost estimators should utilize at least one reference book which gives an updated listing of unit costs of typical home repairs. Some sources for these publications are Home Tech Publications, McGraw-Hill (Dodge Reports), Craftsman books, Fred R. Walker. Addresses for the sources are available from DHCD. Reference books should be used as a general guide to specific unit prices. The Rehabilitation Specialist should fine tune these prices through actual bid results and research on local prices.

A good estimator should routinely check with local suppliers to keep track of the cost of commonly used materials and equipment. This exercise not only assists in honing cost estimating skill, but also develops good relations with suppliers. It

also provides the Rehabilitation Specialist with knowledge of what materials are locally available and what materials may be acquired at a good price. (Example: The estimator in visiting local suppliers may find that fiberglass tub kits are available at considerable savings over tile installation).

The Rehabilitation Specialist should use the cost estimates in several ways. Cost estimates may show that the bids will likely exceed the program's maximum allowable cost per house, thus creating a need to delete or scale down certain work items to include alternatives. When bids are reviewed, they can indicate that a bidder either misunderstood the job specifications or was taking the job at a loss. Some bidders will bid low in order to win a contract, planning to recoup by requesting numerous change orders.

Bidding and Construction Process

All housing rehabilitation construction contracts that will use IPR funds must abide by the *Virginia Public Procurement Act*. The Act allows use of one of the following processes depending on the estimated value of the contract to be awarded:

All contracts less than \$30,000 in estimated costs must be done in accordance with the Subrecipient's adopted small purchase procedures. These procedures do not have to require competitive sealed bids for construction contracts if the aggregate

or sum of all phases of a contract is not expected to exceed \$30,000 as long as the procedures provide for competition wherever practical.

Contracts with an estimated cost of \$50,000 or more must use a competitive bid process. A public notice should be posted in a designated public area and advertised in a newspaper of regional circulation at least ten (10) days prior to the date set for receipt of bids. Bids must be opened in public with an announcement of the bids received.

Pre-Bid Conference

DHCD *highly* recommends that a pre-bid conference be conducted. The purpose of the pre-bid conference is to allow bidders to ask questions and comment upon the Bid Documents and for the Subrecipient to issue instructions or clarifications to them.

The pre-bid conference should be held at a time approximately midway between the Invitation to Bid and the Bid Opening. The time, date, and place of this conference should be included in either the Invitation to Bid or the Instructions to Bidders.

The Rehabilitation Specialist should walk through the property with the contractors in attendance. Any questions concerning work specified should be answered, but the Rehabilitation Specialist should be very careful to provide comments only in explanation of what the specifications cover. Substantive verbal instructions or changes may not take place at the Pre-Bid Conference.

*** Absolutely no changes, alternatives, or additions to the specifications may be officially agreed to at this Pre-Bid Conference. Any changes to**

the Bid Documents must be done as a written addendum to them.

Addenda

Changes to the Bid Documents that take place after the publication of the Invitation to Bid are called addenda and become a binding provision. All addenda must be issued in writing. Verbal addenda are strictly prohibited. Addenda can derive from:

- Comments or questions received at the pre-bid conference;
- Phone inquiries from prospective bidders; or
- Clarifications of technical issues discovered after formal advertising.

When an addendum is necessary, it must be provided to every prospective bidder who received a copy of the Bid Documents. Addenda should be transmitted to all bidders at the same time and at such a date as to allow sufficient time for bidders to accommodate the changes in their bids.

Bid Opening

Everyone with a vested interest in the rehabilitation project should attend the bid opening. At a minimum, the Program Administrator and the Rehabilitation Specialist must attend. All bids must be opened publicly and read aloud at the time stated in the Invitation to Bid.

After the bids have been opened and read, interested parties should be informed that the bids shall be taken

under advisement and the parties will be notified of the award. A bid tabulation form shall be prepared comparing the base and individual exception prices and the Rehabilitation Specialist's estimate, signed by the Program Administrator and Rehabilitation Specialist, and placed in the client rehabilitation file.

The Bid Tabulation will be shared at the next Rehab Oversight Board meeting so that an award can be officially made.

*** Bids may not be accepted past the stated time for close of receipt of bids. No verbal modifications or clarifications of bids will be allowed after the bids are opened. Withdrawal of a bid by a contractor after it has been submitted is allowed only as described in the *Virginia Public Procurement Act***

No contractor who is debarred by HUD, DOL, or by an agency of the Commonwealth of Virginia is eligible to work on any IPR funded project. Prior to construction contract award, the Subrecipient must contact the Community Development Specialist and receive confirmation from DHCD that the apparent low bidder is not on a list of debarred contractors. This confirmation may be verbal and will be followed-up with a written confirmation from DHCD. The information necessary to check debarment includes the name of company, tax identification number (TIN) or principal's social security number (SSN), and Virginia Department of Professional and Occupational Regulation (DPOR) license number.

Contract Award

The Rehabilitation Specialist and Program Administrator should evaluate the bids received, determining if they are complete, based on the requirements set forth in the invitation and the Program Management Plan, and within DHCD's cost limitations. A contract award recommendation shall be made to the Rehab Board. All bids must be reviewed and approved by the Rehab Board with the contract signed by the Chief Executive Officer or Chief Elected Official.

If the cost of the best bid is not within 10% of the Rehabilitation Specialist's cost estimate, a memo must be placed in the client rehabilitation file, justifying the contract award. If the contract is not awarded to the lowest bidder, the reason must also be documented. This could include the bidder not being in good standing with the program or the bidder not having the capacity to complete the project within sixty (60) days.

*** No person may bid on or be awarded a contract to perform work on property which they own or in which they have financial interest.**

If the contract award results in the contractor receiving contracts that in total or in accumulation exceed \$50,000, the Program Administrator must obtain a completed *Contractor Disclosure Report*, which is found in Attachment 26.

Pre-Construction Conference

Upon award of the bid, a pre-construction conference must be held. This is a critical event in implementing an effective, timely construction process and clarifying any remaining questions that the homeowner has about the project. The conference should be a formally scheduled meeting attended by the Program Administrator, the Rehabilitation Specialist, the Homeowner, and the Contractor.

The first part of the conference will be an overview of the construction process. All participants should reach a mutual understanding of how the construction work should be carried out, what the end product will be, and the roles of all parties in the process. The following items should be discussed:

- Start and completion dates;
- Work hours;
- Inspection procedures;
- Payment schedule;
- Responsibilities of all parties;
- Complaint and appeals procedure;
- Change order procedure;
- Debris removal and clean-up requirements; and
- Temporary relocation.

At the conclusion of this portion of the conference, the contracts should be executed, along with the federally-required

notices. A copy of the complaint and appeals policy should be given to the homeowner, again.

The second part of the conference is a site visit. The contractor and homeowner should be taken room by room and shown the location of all work. All parties should thoroughly understand what will be done. Homeowner preference in colors and styles of selected components should be discussed.

If there is a disagreement about the scope of work, the Rehabilitation Specialist should provide a ruling based on the work write-up. If work is not covered by the write-up, a change order should be requested or the Rehabilitation Specialist should inform the homeowner it is not covered. The Rehabilitation Specialist should make it clear that items requested by the owner not covered in the contract will not be paid for with IPR funds. Side deals are forbidden during the sixty day IPR construction period.

If during the site visit, the Rehabilitation Specialist determines that the homeowner has not properly cleared the site, he or she should put a hold on the project until it is done. This may require a change order to modify the start and completion dates of the project.

Change Orders

Change orders are any alteration made through an addendum to the rehabilitation contract. This includes changes to the specifications, changes

to the contract amount and/or an extension to the contract's completion date.

Change orders must be initiated by the Rehabilitation Specialist as soon as the need for them is determined. Those pertaining to the specifications should be only for work that could not have been foreseen prior to construction and must relate to eligible DHCD HQS deficiencies. The amount of the change order should be supported by predetermined unit prices or be negotiated with the contractor.

It should be noted that a program which approves a lot of change orders will generally receive continual requests for additional ones since contractors build in a higher profit margin for change orders than for bid work items.

*** All change orders must be signed and dated by the contractor, homeowner, Rehabilitation Specialist, Program Administrator, Subrecipient and DHCD prior to work authorization.**

Payment for change orders must be made with the final construction draw.

Inspections

During the course of the project, the Rehabilitation Specialist is expected to undertake inspections at least weekly. These may include:

- Progress inspections;
- Payment inspections;
- Complaint inspections;
- LBP inspections;

- Final HQS inspection; and
- Punch list.

All inspections must be documented by written reports signed by the Rehabilitation Specialist and submitted to the Program Administrator.

Progress Inspections

Visits to the construction site occur either on a set schedule or when critical construction elements must be approved before the project can proceed.

- ☒ At these inspections, the Rehabilitation Specialist should document whether or not Lead Safe Work Practices were observed.

Payment Inspections

The Rehabilitation Specialist must base his or her approval of contractor invoices on a documented payment inspection. These inspections should be made promptly so as not to delay the processing of the contractor's payment. The report should reflect the type of payment procedures adopted by the program, usually 50%, 95% and 100%. A predetermined percentage of completion procedure would merely require a Summary of Work Completed and the inspector's certification that the completed work has met or exceeded that percentage. A payment for actual work accomplished not tied to a percentage would necessitate a detailed listing with cost figures of all work to be

included in the payment and possibly invoices.

All projects are to be closed within 120 days after Project Set-Up, no exceptions.

Complaint Inspections

In the event that a complaint is received from the homeowner regarding the work of the contractor, the Rehabilitation Specialist must inspect the validity of the complaint and document his or her determination.

LBP Inspections

At the completion of “interim controls” or before the homeowners return to their home, the Risk Assessor must complete a clearance examination. A written Clearance Report and the Lead Hazard Reduction Activity Notice must be submitted to the Program Administrator and the beneficiary within fifteen (15) days of the Clearance Examination.

Final DHCD HQS Inspection

When work is nearing completion, the contractor should notify the Rehabilitation Specialist of the date when the property will be ready for final inspection. Both the Program Administrator and the Rehabilitation Specialist are required to document final DHCD HQS inspections. They should proceed through the house with the work write-up in the same deliberate manner in which the initial inspection was made, ascertaining that each work item has been totally completed to his or her satisfaction.

☒ The Program Administrator and the Rehabilitation Specialist can use their initial

HQS inspection form, using a second ink color in the last column of each page to show that failing items are now passing inspection. The inspection form is to be signed, dated and placed in the client rehabilitation file.

*** The Rehabilitation Specialist should also verify that the homeowner has received all warranties and instruction booklets for installed equipment and appliances.**

Any unfinished or omitted items should be noted and written down on a punch list. A punch list is a listing of items written as specifications, which constitute the work necessary to complete the contract. No work items other than those written on the punch list should be required of the contractor after receipt of the punch list. Upon completion of the punch list items, the Rehabilitation Specialist should check those items and if all have been completed satisfactorily, completion should be certified.

Role of Local Building Code Official

The local building official must inspect all relevant rehabilitation work e.g., electrical, plumbing, mechanical, and structural).

*** It is required that electrical upgrades be inspected by a certified electrical inspector.**

The Rehabilitation Specialist should consult with the local building inspector before doing any work to assure that the local official understands the scope

and objectives of the program. The local building inspector should be viewed as a resource to the program.



Any problems encountered with local building officials should be brought to the attention of your Community Development Specialist. DHCD's Division of Building Regulation is aware of the objectives of the IPR program and is willing to mediate any misunderstanding with local building code officials.

Certification of Final Completion and Acceptance

The Rehabilitation Specialist should submit a *Certification of Final Completion and Acceptance* to the Program Administrator. Either the Rehabilitation Specialist or Program Administrator must visit the homeowner and obtain a signed certification of final acceptance.

Final Payment

Before authorizing final payment to the Contractor, the Program Administrator must obtain the following paperwork from the contractor and/or Rehab Specialist:

- Signed and dated Final DHCD HQS Inspection form with the house marked as “PASS” meaning all deficiencies have been cured;
- Final Blower Door Test Report;
- Exterminator Inspection and Treatment Reports;
- Electrical Inspection Report;
- Affidavit of Release of Liens;

- Affidavit of Payment of Debts and Claims;
- Register of Contractors, Subcontractors and Suppliers as found in Attachment 11;
- Chimney Inspection Report, if applicable;
- Building and/or Health Permits, if applicable;
- Building Code Inspection Report per USBC, if applicable; and
- Certificate of Occupancy, if applicable.

Recordkeeping

Housing projects require extensive documentation. The Subrecipient must maintain a separate client file for each household assisted. See Attachment 23: Rehab File Checklist for more details.

Subrecipients must maintain records available to the public that indicate rating criteria and justification for assistance for all applicants.

All application and verification information, especially social security numbers, must be kept confidential. Please only collect the last four digits of the applicant's SSN. This is acceptable.

For all projects, applicants and beneficiaries must be tracked by income, race and ethnicity as categorized by HUD, as well as by owner-occupied or tenant status, female-head of household (occupied by

one or more children under the age of 18), elderly household (62 years of age or older), and disabled household.

Subrecipients must set up a file for each household that receives housing rehabilitation assistance. At a minimum, the client file must contain all of the information outlined in Attachment 23.



For each household, set up a three-ring binder with a tab for each of the numbered items in the Rehab File Checklist.

In addition, Subrecipients must track housing construction contracts awarded by contract value, number of houses, and business names for minority contractors, for Section 3 contractors and for low bidders.



Call your DHCD Community Development Specialist for a sample tracking form.

All project files must be maintained for at least five (5) years after Compliance Review Closeout.

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CHAPTER 1: THE I.P.R. TRIPOD

Management of the Indoor Plumbing Rehabilitation Loan (IPR) Program is supported by three legs of a tripod: 1) a Program Management Plan which sets forth how the program will be implemented; 2) a Contract which sets forth DHCD conditions and the Subrecipient's responsibilities; and 3) an IPR Budget Report based upon funding reservations per Locality.

Program Management Plan

All Subrecipients must annually develop a Program Management Plan (PMP). A format for the PMP is provided in Attachment 1. The PMP and any substantive revisions **must** be adopted by the Board of Directors in the case of a non-profit organization or local governing body in the case of a Locality, and reviewed in detail by the Rehabilitation Program Oversight Board. The PMP must also be reviewed and approved by DHCD prior to the issuance of an IPR contract. The PMP is a part of the Subrecipient's contract with DHCD. Components of the PMP include, but are not limited to, the items listed below.

- A list of the Rehabilitation Program Oversight Board (Rehab Board) members. The Rehab Board is appointed by the Locality's board of elected officials or the Board of Directors of the non-profit or Authority designated as Subrecipient for the Locality. Its function is to oversee program implementation;
- Required responsibilities of the Rehab Board are outlined in Chapter 5.
- The PMP must name **the Program Administrator**, the person who will administer the program on a day-to-day basis, and describe the Program Administrator's responsibilities. Key responsibilities of the Program Administrator are to oversee the work of the Rehab Specialist and the financial manager and assure that the program is administered pursuant to all HCD program requirements. A Program Administrator must be designated in order for the PMP to be approved and the Subrecipient's contract executed.
- The PMP must name **the Rehab Specialist**, the person who will inspect houses, identify DHCD Housing Quality Standards (HQS) violations (see Attachment 3), oversee blower door tests, prepare work write-ups and cost estimates for construction necessary to alleviate DHCD HQS violations, conduct and document weekly progress inspections of the construction work, and review and sign off on contractor pay requests based on inspection findings. The Rehab Specialist also assures compliance with lead based paint

requirements, OR the Subrecipient contracts with someone who will.

- If the Rehab Specialist will not serve as Lead Risk Assessor, identify who will act in this capacity. Describe how the Assessor will coordinate with the Rehab Specialist in the development of the work write-up.
- The PMP must identify the **Financial Manager**, the person who will be responsible for tracking the receipt and expenditure of program related funds. It must also identify the **two persons** who will be authorized to sign checks as well as the two persons who will be authorized to sign drawdown requests for IPR funds. If adequate numbers of personnel are available, for internal control purposes, at least 3 individuals **must** be involved in these transactions.
- The PMP must specify the criteria to be used to determine how applicants will be deemed **eligible for assistance**. This must include information such as HUD's low- and moderate-income limits for the Subrecipients' service area and the manner by which income and assets will be verified. The PMP must specify how the availability of funds will be advertised, and how eligible **beneficiaries** will be prioritized and selected for IPR assistance.
- The PMP must describe how **construction** contractors that are located within each of the counties served and at least 51% owned by lower-income residents of that

county will be notified of this business opportunity. This measure will insure that the local Section 3 requirements are met. Local Section 3 contractors are further described as local contractors who have 30% of employed staff are Section 3 residents; or 25% of subcontracts are committed to Section 3 businesses. The method of soliciting participation by local Section 3 businesses and by minority and female-owned businesses must also be described and advertised.

- The PMP must describe how the Subrecipient will pre-qualify construction contractors, procure bids, and execute construction contracts. The Virginia Public Procurement Act must be followed for **all** work funded in whole or in part by this program. Note that all contractors and their crews must document training in Lead Safe Work Practices and be Environmental Protection Agency (EPA) Certified as a Renovation Firm and have a Certified Renovator assigned to the project as well as the required Virginia contractor licensure necessary to be in good standing as a Class A, B or C as defined by the Virginia Department of Professional and Occupation Regulation (VDPOR).
- The PMP must describe the Subrecipient's procedures to document weekly construction **inspections**, approve contractors' requests for payment, and the method by which change orders will be approved.

- The Program Management Plan **must** contain guidelines which assure that construction work is started and completed in a prompt, cost effective manner that is minimally disruptive to the homeowner, including management of the temporary relocation process.
- The PMP must describe the types of **self-help** activities that the Subrecipient will pursue, including the removal of debris and junk before construction starts if the homeowner is physically able to do so. It may include any specialized information regarding local wages, salaries, or fees that may affect the valuation of in-kind goods and services.
- The PMP must describe any homeownership strategies the Subrecipient intends to initiate.
- The PMP must describe how the **Home Maintenance Education Program (HMEP)** will be conducted.
- The PMP must include a description of how **loans** will be serviced, the method of security to be used, and the Subrecipient's loan servicing agent.
- The PMP must detail how active and inactive **program income** will be collected, tracked, and reported to the Rehab Board. The PMP must also include details about the annual Program Income Plan which describes how program income will

be used. Inactive program income must be reported annually to DHCD whenever loan re-payments exceed \$25,000 for review and concurrence.

- The PMP must define the roles, procedure and time frame to be used in identifying and settling **complaints** from applicants, beneficiaries and/or contractors. At a minimum, the process must comply with DHCD's attached Standardized Compliance Process.
- The PMP must describe the circumstances under which applicants may be and will be temporarily relocated.
- The PMP must describe the Subrecipient's plan to address lead-based paint procedures including occupant notification and protection.

Contract

All program activities undertaken **must** comply with the terms of the IPR contract between the Subrecipient and DHCD (see Attachment 5). IPR contracts must be executed by the chairman of the Subrecipient's board or chief executive officer and DHCD. The contracts will be prepared by DHCD. All IPR contracts will include the following terms:

- Execution date and termination date;
- Commitment of funds deadline;
- The Program Management Plan, Program Income Plan, and the IPR

Budget Report are considered to be a part of the contract;

- Conformance with the *IPR Management Manual*;
- Access to Subrecipient's records and rehabilitated properties by DHCD and, the U.S. Department of Housing and Urban Development (HUD);
- Cooperation with compliance reviews and timely mitigation and clearance of findings from compliance reviews;
- Financial liability if the budget and administrative requirements are not followed;
- Prohibition of collusion, conflict of interest, favoritism and illegal discrimination;
- Performance and submittal of an annual audit if \$500,000 in federal funds is received in accordance with OMB Circular A-133;
- Timely submittal of Completion Report Forms (within 120 days of Set-up);
- Conformance with all federal, state, and local statutes and requirements; and
- Criteria to be used to grant waivers of local program guidelines.

The IPR Budget Report

Expenditure of IPR funds must be in accordance with a current IPR Budget

Report that has been approved by DHCD (see Attachment 6). The IPR Budget Report shows the amount of funds reserved for each Locality represented by a Subrecipient. Funds may be obligated and spent within each Locality in the amount shown on the DHCD approved IPR Budget Report.

Each section in the IPR Budget Report reflects the Subrecipient's IPR reservation for a county that is served by the designated Subrecipient.

The IPR Budget Report **must** be updated and submitted to DHCD for approval whenever Project Set-Up Reports are submitted. The revisions must be signed by the designated Subrecipient official and the DHCD Associate Director or her designee. DHCD approval of all revised requests must occur prior to the obligation of funds by the Subrecipient (i.e. execution of construction contract).

CHAPTER 2: ROAMING

To provide service to LMI homeowners occupying houses that lack **bathrooms and/or have a failed absorption system**, DHCD allows, under certain circumstances, a Subrecipient to “roam” (“roamer”) into an area for which it is not the designated Subrecipient (“DS”). DHCD **STRONGLY** encourages ongoing cooperation between a Locality’s DS and the roamer coming into the Locality.

The circumstances under which roaming may occur are as follows:

If a Subrecipient is contacted by an eligible homeowner located outside of its designated localities and it wishes to roam to provide assistance, the outside Subrecipient must inform the DS involved of the specific homeowner’s interest, and provide contact information. The DS may serve the household if it can provide assistance (execute a 60 day contract, with work to begin within 15 days of signature) within 30 days.

If the DS believes that it cannot assist the homeowner within a 30 day period, it is appropriate for the DS to allow the potential roamer immediate access. Regardless, the DS has 30 days, from the roamer’s *first contact* with the DS about the specific homeowner, to provide assistance to the eligible household. Otherwise, the roamer, meeting all other requirements, cannot be blocked from providing service to the eligible household.

If there is a disagreement between the DS and the roamer about the eligibility of the household in question (i.e., regarding income, ownership, or whether the house meets eligibility) both the DS and roamer are required to contact DHCD. The process **MUST** be suspended until agreement is reached. DHCD reserves the right to be the final arbiter, but encourages the Subrecipients involved to come to a conclusion without DHCD’s intervention.

At all points in the process, DHCD strongly advocates that designated Subrecipients and roamers collaborate in the best interest of the beneficiaries and the program overall. Abuse of the roaming option will not be tolerated.

Localities must annually designate their “Subrecipient” even if a roamer has worked in the Locality in the past year.

Designated Subrecipients will be allowed to roam and work in any area of the Commonwealth eligible to participate in the IPR Program, **only with PRIOR DHCD approval of the roaming Set-up.**

Any Subrecipient wishing to roam must have completed at least one (1) unit in each Locality for which they are the designated Subrecipient prior to roaming into other areas.

Roaming Subrecipients will receive funds by directly submitting a Project Set-up (all set-ups include the Locality FIPS Code), an IPR Budget Report specific to the Locality in which it is working, a revised Program

Management Plan explaining how they will manage and conduct the program in the new Locality; and a revised Program Income Plan reflecting management of funds from the new Locality into which they are roaming. Again, DHCD strongly recommends cooperation between designated and roaming Subrecipients.

Roaming Subrecipients must be under contract with DHCD and adhere to all program guidelines, including use of a Program Management Plan, Program Income Plan, and a Rehab Program Oversight Board.

No additional rollover funds are available for roaming purposes. Set-ups for roaming will only be approved after an assessment by DHCD verifies that the roamer is meeting production goals in their designated area(s).

Any non-profit organization that wishes to become a Subrecipient eligible to roam will negotiate with DHCD on a case-by-case basis to demonstrate capacity and readiness to receive a contract. Please contact the assigned Community Development Specialist before initiating a Project Set-up process to roam.

A list of Subrecipients and the localities for which they are responsible is included in Attachment 32.

CHAPTER 3: FINANCIAL RECORDS AND COST INFORMATION

Subrecipients must possess the capacity to effectively and correctly manage IPR funds. This capacity must be reflected in the PMP and demonstrable during DHCD's site visits and compliance reviews. Note that DHCD holds Subrecipients legally liable for expenditure of IPR funds according to OMB A-87 for state and local governments, OMB A-122 for non-profit organizations, DHCD's contract, and HOME regulations.

All Subrecipients are required to comply with Generally Accepted Accounting Principles (GAAP). An accounting system must be established to sufficiently and accurately record and report transactions. Supporting documents can be copies, carbons, or original but must contain sufficient detail to support the transaction and to justify it as an allowable IPR expense. Supporting documents must be approved and dated and contain the name of the client the expense relates to in the record. The following source documents must be maintained:

- Purchase Orders and Requisitions;
- Invoices and Payment Vouchers;
- Draw downs and Deposit Receipts;
- Receipts for Cash Expenditures;
- Contracts;

- Travel Advance Requests and Travel Reimbursement Vouchers;
- Bank Statements; and
- Cancelled Checks.

A spreadsheet must be maintained to track receipts and expenditures per client to document that all funds that were drawn were expended. If the accounting records are maintained in the accounting office by vendor, a copy of the source documentation supporting the transaction must be maintained by the Program Administrator in the client file or the accounting system must identify payments by client.

Rollover Funds

Rollover funds have been provided so immediate payments can be made to construction contractors. By having this money on hand, Subrecipients can quickly pay construction contractors. **No contractor should have to wait several weeks for the drawdown of IPR funds to be processed** Some rollover funds have been recaptured as a result of funding shortfalls. The IPR Agreement will reference the amount of Rollover the Subrecipient should have on hand at the onset of the program year.

Rollover funds are to be kept in a separate interest bearing account. Funds expended out of the Rollover account are to be replaced out of regular IPR draw downs.

After the initial rollover amount has been expended and replaced, the rollover funds should be kept on hand for each successive year that the IPR program is administered by the Subrecipient.

Rollover funds may be used to pay for construction and administrative activities in accordance with the Subrecipient's IPR Budget Report and Program Management Plan.

Rollover funds are replenished with each drawdown. When contractor payments are made from the Subrecipient's rollover fund account, then the account must be replenished. If contractor payments are made directly from the funds received from DHCD, then the rollover fund account does not need to be replenished.

In no instance should rollover funds remain in an interest bearing account unused. Rollover funds must be returned to DHCD if they are not going to be used. DHCD retains the right to "call in" all or part of the rollover funds if they are not used routinely or correctly.

✱ Subrecipients must track and be able to identify their rollover funds at all times.

Obligation of Funds

After the Subrecipient's contract with DHCD is executed, the Subrecipient must adhere to the following procedures:

1. Funds are obligated in accordance with the initial or current status of the approved IPR Budget Report.

2. The work is bid and approved according to the Program Management Plan.
3. A Project Set-Up Report form (Attachment 9), along with supportive documentation, is submitted to the: Project Management Office, Community Development Division, Virginia Department of Housing and Community Development, Main Street Centre, 600 E. Main St., Suite 300, Richmond, Virginia 23219. The total funds requested under Section 6 A must be based upon the winning bid(s). Contingency funds may not be included in the total project costs.
4. A construction contract is executed immediately **after** the Set-up is approved.
5. A Project Completion Report (see Attachment 10) along with supportive documentation should be forwarded to the address above. Each Project Set-up Report form and Completion Report form submitted must include at the top, right hand of the page, the Subrecipient name, the IPR contract number, the name of the county or city of the beneficiary, and the Subrecipient fax number. The Project Completion Report must reflect actual expenditures and must not be submitted until the job is actually complete.

Cost Limits

The cost limits for rehab and for substantial reconstruction assume that the unit in question is a 2-bedroom unit. If the unit to be rehabilitated or the unit at the completion of the substantial reconstruction contains more than 2 bedrooms, the exception rules apply.

Because of the need to maximize production and limit costs leveraging other funds is **strongly encouraged** especially through participation of the property owner.

The cost limits are as follows, excluding home maintenance education costs:

IPR Rehab, Failed Absorption System

Base cost	\$25,000
Exceptions	\$15,000
Administration	\$ 4,000
CRSC	\$ 3,500
Legal Fees	\$ 750
Temp. Relocation	<u>\$ 2,000</u>
Total	\$50,250

Note: Under the following circumstances, if the answer is YES to any one of these items, DHCD will allow a base cost of up to \$35,000:

- The Subrecipient tests a house constructed pre-1978 for the presence of lead-based paint (using a VPOR licensed paint inspector/risk assessor), as outlined in the lead related regulations, and all tested surfaces in a unit show no presence of lead;

- The Subrecipient has at least four (4) licensed lead abatement contractors who are qualified to bid on the job in question; or
- The unit was constructed after 1978.

IPR Substantial Reconstruction, Unit with Failed Absorption System

Base cost	\$70, 000 Including exceptions
Administration	\$ 4,000
CRSC	\$ 4, 000
Legal Fees	\$ 750
Temp. Relocation	<u>\$ 2,000</u>
Total	\$80, 750

IPR Rehab, Unit Lacking Bathroom

Base cost	\$25,000
Exceptions	\$45,000
Administration	\$ 4,000
CRSC	\$ 3, 500
Legal Fees	\$ 750
Temp. Relocation	<u>\$ 2,000</u>
Total	\$80, 250

Note: Under the following circumstances, if the answer is YES to any one of these items, DHCD will allow a base cost of up to \$35,000:

- The Subrecipient tests a house constructed pre-1978 for the presence of lead-based paint (using a VDPOR licensed paint inspector/risk assessor), as outlined in the lead related regulations, and all tested surfaces in a unit show no presence of lead;

- The Subrecipient has at least four (4) licensed lead abatement contractors who are qualified to bid on the job in question; or
- The unit was constructed after 1978.

IPR Substantial Reconstruction, Unit Lacking Bathroom:

Base cost	\$70,000 including exceptions
Administration	\$ 4,000
CSRC	\$ 4,000
Legal Fees	\$ 750
Temp. Relocation	<u>\$ 2,000</u>
Total	\$80,750

IPR Mobile Home

The cost of rehabilitation cannot exceed \$10,000 plus \$10,000 for well and septic. No other exceptions apply.

Alternative Septic Systems

IPR units requiring alternative septic systems are eligible for an additional \$10,000 in exception funding.

Exceptions

- Installation of a well and/or a septic system (**payment will be made for only one [1] well regardless of the number drilled**). IPR funds may not be used to install “pump and haul” systems. **Any well drilled using IPR funds must have the water laboratory tested and declared potable and be approved by the local Health Department to be an eligible expense;**

- Provision of water and/or sewer connections;
- Alternative septic systems;
- Provision of ramps and other accessibility features;
- Provision of one or more additional bedrooms to relieve an overcrowded situation in which more than two (2) bedrooms are necessary or other changes to a unit’s footprint;
- Actual lab costs for the lead testing; and,
- Construction of a bathroom for rehabilitation on a unit that lacks a bathroom;
- Energy efficiency construction costs pre-approved by DHCD; and
- Flood proofing solutions prescribed by local building officials.

Please note that exceptions may be bid as alternates, but must be contracted out separately. Exceptions allow the Subrecipient to commit additional funding, beyond the base contract cost, to the completion of the project. Failure to contract these items separately may result in the ineligibility of the entire project.

Administration Costs

- Outreach and intake;
- Income eligibility verification;

- Staff time for delivery of Home Maintenance Education Program; and
- Monitoring and maintenance of insurance as required by Deed of Trust with Subrecipient named as loss payee.

Please note that these costs must be assigned to Administration or covered with non-IPR funds.

Construction-Related Soft Costs (CRSC)

- Fees of Rehab Specialist duties including inspections, preparation of cost estimates and work write ups, construction management activities, collection of contractor paperwork, and time for delivery of home maintenance education training;
- Engineers (as needed);
- Architects (as needed);
- Soil evaluation (as needed);
- All inspections and supporting documentation;
- Property Surveys (as needed);
- Blower door tests and supporting documentation; and
- Clearance examinations (includes time taken by Rehab Specialist to perform lead examinations, fill out forms, etc., and send to lab for testing. Actual lab costs for evaluation of lead samples are covered under “Exceptions”).

Home Maintenance Education Program Costs

Subrecipients may obligate up to 1% of base construction costs per unit up to a **maximum allowable cost of \$250**, based on actual documented costs, to carry out Home Maintenance Education. These per unit costs do not and are not intended to cover *staff or Rehab Specialist time* for training delivery. This is intended to cover items such as cleaning kits, handouts, and tool kits. Vacuum cleaners may be purchased if the house is carpeted and funds are available. If there is no garbage can with lid present, then this is an eligible expenditure for HMEP costs. The request for these funds must be made with the final draw down including the invoice or statement from vendors.

Demolition

Demolition costs are only available on Substantial Rehabilitation projects (the house is totally torn down). Demolition costs are “stand-alone” costs – neither base construction nor exception and are a line item to be contracted out separately. Although there are no cost limits for demolition, DHCD expects them to be reasonable. DHCD reserves the right to cap or cut costs, if necessary.

Temporary Relocation Costs

The temporary relocation policy must be incorporated into the IPR Management Plan. When the plan is approved, up to \$2,000 per unit may be budgeted once it is determined that the occupants must be temporarily relocated. Allowable relocation expenses include storage of household belongings and/or reasonable household lodging or re-housing. No

household travel or meal reimbursements will be covered. If the Subrecipient does not incur any **actual** relocation costs, the \$2,000 is not available.

Direct Legal Costs

Direct legal costs to establish clear title or control of a property shall not exceed \$750 and shall not be considered a base construction or an exception cost. Title searches must be conducted on all properties to be assisted with IPR funds. Deed Recordation fees and the first year of Hazard Insurance may be paid from Direct Legal costs based on actual verifiable expenditures.

The \$10,000 Rule

Any house rehabilitated for a construction cost of \$10,000 or less will not require lien documents to be executed by the beneficiary family. **The funding will be considered a grant.** All other program guidelines apply. The transaction will be governed by the construction contract which binds the beneficiary to, among other things:

- Maintain the structure to DHCD Housing Quality Standards for a period of ten (10) years; and
- Purchase and maintain hazard or homeowner's insurance coverage, either fire only or an extended coverage. The homeowner must supply the Subrecipient with proof of the insurance coverage annually for ten (10) years.

Lacking a Bathroom

Any unit lacking a bathroom will receive a \$20,000 grant and the remaining

construction costs as a loan based on Ability -to-Pay. The Deed of Trust and Note will reflect \$20,000 less than the actual construction and demolition costs.

Paying Contractors

Paying contractors in a timely manner is critical to a rehab program. A Subrecipient's financial management system should be able to pay contractors within five (5) working days of receipt of a request for payment.

Contractor payment requests must be approved by the Rehab Specialist and the Program Administrator. If they are the same person, then an independent inspector must approve all construction draws in addition to the Rehab Specialist.

At the beginning of a 60-day construction contract period, 50% of the amount of the construction contract, administration funds, construction-related soft costs, and demolition contract amount when applicable should be requested from DHCD if the project will follow the typical timeframe. Under no circumstances should funds received by Subrecipient, from DHCD, be held in Subrecipient's account for **more than 15 days**. Contractors may not be paid any funds until at least 25% of the work is completed, inspected, and accepted. Contractors may be paid for the first 50% of the work after the Rehab Specialist has inspected and accepted the work.

Every draw down form must include the client name, Project Set-up number, amount to be paid out for construction costs, construction-related soft costs and (if applicable) the amount to be paid out

for administrative costs and other stand alone costs.

After payment of 50% of the construction contract amount, the Subrecipient should request 45% of the balance due from DHCD if the project will follow the typical timeframe. Under no circumstances should funds be held in Subrecipient's account **more than 15 days**.

The third drawdown is to be for the remaining 5% (actual costs) of construction and all change orders, the remaining 50% of administration funds, demolition construction amount, and construction-related soft costs, all home maintenance education expenses and, if applicable, temporary relocation and direct legal expenses. Requests for HMEP costs are to be accompanied with copies of the invoices. The remaining 5% of construction funds should be held until the contractor has completed all punch list items, the Rehab Specialist, the Program Administrator and the homeowner have inspected and accepted the improvements, the house has passed the final inspections by the local building official, all warranties, lien waivers, registers and related documents are received.

✱ **If it is found that funds have been overdrawn on a project, DHCD reserves the right to charge a penalty of 10% of the administration fee.**

Typical Rehab Payment Timeframe

Below is an example of how a Locality may time the request, receipt and disbursement of a 60-day rehab contract:

- Day 1: DHCD approves the Project Set-up Report and confirms Set-up via fax. Subrecipient executes rehab contract and notice to proceed (with start date and completion date) and construction begins on house.
- Day 29: Request for IPR funds submitted to DHCD for first-half of rehab contract, Program Administrator's costs and Rehab Specialist's costs.
- Day 36: Invoice received by Subrecipient from contractor for first-half of work and it is approved by the Program Administrator and the Rehab Specialist based on inspections of work complete to-date.
- Day 37: Approved invoice submitted to the financial person for payment. Check is written to the contractor for the first half of the work. If requested funds have not been received by Subrecipient as scheduled, the contractor is paid from the Rollover funds. Rollover funds are reimbursed as soon as the Subrecipient receives the requested funds.
- Day 38: Request for IPR funds submitted to DHCD for second-half of rehab contract.
- Day 60: Work on the house is completed or a time extension change order has been

	reviewed and approved by DHCD.	Subrecipient receives the funds.
Day 66:	Second-half (final) funds received by Subrecipient.	
Day 68:	Invoice received from rehab contractor by Subrecipient for second-half of rehab work.	
Day 69:	Invoice from rehab contractor for second half of work approved by Rehab Specialist, Program Administrator, and homeowner. Five % retainage should be held until all punch list items are completed and accepted by the Rehab Specialist, Program Administrator, and homeowner, and the house has passed the final inspection by the local building official. The final invoice should also cover all change orders, the remaining 50% of administration funds, demolition construction amount, and construction-related soft costs, all home maintenance education expenses and, if applicable, temporary relocation and direct legal expenses.	
Day 70:	Approved invoice submitted to the financial person for payment. Check written to rehab contractor. If requested funds have not been received by Subrecipient as scheduled, the contractor is paid from Rollover funds. Rollover funds are reimbursed as soon as the	
Day 71:		Financial person and Program Administrator verify the amount of funds drawn down and expended for eligible activities and return any overdrawn funds to DHCD with the Completion Report Form.

Requesting Funds from DHCD

A Certification of Signatures and Addresses (see Attachment 14) form must be submitted to and approved by DHCD. Subrecipient rollover funds or any other payment requests will not be made available until after the effective date of the Contract, and only after receipt of an acceptable Certification of Signatures and Address form.

Payments to Subrecipients will be made by the Treasurer of Virginia upon receipt of a drawdown request form approved and processed by DHCD's Project Management Office.

Only individuals duly certified by the Subrecipient as authorized to draw funds will be allowed to sign the drawdown request form. These cannot be the same individuals who sign the Subrecipient's checks unless prior approval is obtained from DHCD. Likewise, payments will be sent only to the address certified by the Subrecipient. At least two persons must be authorized on the Certification of Signatures form to sign drawdown request forms. All drawdown request forms must be submitted on blue paper and signed in blue ink.

All drawdown request forms will be checked against the certified signatures, payee and address, and the Federal Identification Number (FIN) that is used as the Vendor ID Number on the IPR Payment Request.

*** All payment requests must have a Federal Identification Number (FIN) or they will be returned with processing. A W-9 form must be completed by each organization if it is not already on file with DHCD (see Attachment 15).**

DHCD recommends allowing at least 28 days after mailing for receipt of payment from DHCD. The 28 days includes approval and processing by the DHCD Project Management Office, DHCD Accounting Office, the Virginia Department of Accounts, the Treasury of Virginia, and postal time.

Payment request information is acceptable typed or printed in black ink. All required elements of information must be filled in correctly per the format requirements (Attachment 16). Signatures must be original in blue ink.

To avoid delay of payment, please carefully study the instructions and samples in Attachment 16. Inform those persons preparing these forms, including typists, of the format requirements to avoid non-payment or delay in receipt of payment. (Attachment 16 includes samples for rollover fund and standard drawdown request forms). Checks written that utilize IPR funds must be signed by two authorized individuals.

Every drawdown request must include the client name, Project Set-up number, and an itemized list of the amount(s) to be paid out for each cost element being requested.

Program Income

Program income is defined as funds that are earned or received as a result of expenditure of IPR funds. Program income includes loan payments, loan payoffs, and all interest earned on rollover funds. All Subrecipients must submit a Program Income Plan for DHCD's approval. Program income must be tracked by the amounts due and received monthly by client's name, separated by active/inactive status, contract number, Locality's name. There must also be a record of the program income expended annually including: the beneficiary data and verified eligibility, cost elements of the expenditure and documented board approval.

Active Program Income

During an active grant contract period, program income earned from projects started that period must be used prior to requesting additional funds when the amount reaches \$1,000. When the amount reaches \$1,000, the next drawdown must be reduced by the entire amount of program income received to date or the program income must be returned to DHCD.

Inactive Program Income

Inactive Program Income is revenue earned as a result of projects in a Program Year other than the one in which it was funded. Common sources include loan payments received, payoffs on houses

and interest earned on the Inactive Program Income account. Subrecipients must have a Program Income Plan that sets forth how Active and Inactive Program Income will be expended. At the time inactive program income is expended, ten percent of it may be used for administrative purposes, including loan servicing.

Special Conditions

Program income earned by a Subrecipient that roams into another area will be maintained, tracked, and expended by the Subrecipient that roams and must be used for eligible HOME activities. The Subrecipient will submit a Program Income Plan to DHCD for approval outlining how the funds will be used and managed. If the Subrecipient that roams does not have an approved Program Income Plan, the funds must be returned to DHCD.

CHAPTER 4: REHAB LOAN PACKAGING

DHCD requires that all IPR-funded housing assistance be provided in the form of a loan. The amount of the loan is based on the total construction costs (base construction, exceptions, and demolition amounts). The repayment of the loan is based on the ability-to-pay (ATP) of the beneficiary household. Loan packaging requirements are as follows:

1. All households receiving IPR assistance **must** commit to a **loan repayment schedule according** to the following guidelines:

- a. All IPR beneficiaries must make loan payments based on their ability to pay. The ability to pay is based on a formula which calculates housing costs and other specified adjustments. Housing costs include mortgage, homeowners insurance, real estate taxes, and utilities. Utility costs must be determined using a utility fee schedule (see Attachment 18).

DHCD has established a minimum monthly payment to be made by every beneficiary household, regardless of a household's ATP, based on the following guidance: 1) if ATP is less than or equal to the established minimum monthly payment, the set minimum payment will still be charged; 2) if ATP is greater than the minimum monthly payment, the

higher amount must be charged; and 3) the established minimum monthly payment may not exceed \$25 per household.

Any beneficiary who pays less than 25% of their adjusted income for housing costs is determined to have an ability to make IPR loan payments which will be based on the ability to pay formula as set forth in Attachment 17.

- b. The methodology for determining ability to pay is set forth in Attachment 17.
- c. All rehab loans must be secured by a Deed of Trust and a Note for the full loan amount (*construction costs plus cost of exceptions and any demolition cost incurred*). The Deed of Trust must be recorded at the courthouse in the county or city where the rehabilitated house is located. The Deed of Trust may be in less than first position on the property title. However, once established, the position cannot be changed without DHCD approval.
- d. IPR loans must be amortized by dividing into equal

- consecutive installments consisting of two parts:
- i) The Monthly ATP payment amount; and
 - ii) The remaining loan payment amount which is forgiven monthly as long as residency and other conditions are maintained as identified in the Program Management Plan.
2. The IPR beneficiary's ability to pay should be reviewed on an annual basis, or more frequently if requested by the beneficiary, and the monthly payment toward the loan payment adjusted accordingly.
 3. Loan forgiveness cannot occur in one lump sum at the beginning of the loan, but must occur on a monthly basis over a ten (10) year period.
 4. Loans must be calculated using a term of 10 years.
 5. The rate of interest on loans must be zero (0) percent.
 6. The homeowner(s) **must** agree, in the Deed of Trust, to reside in the property rehabilitated for the entire term of the loan.
 7. If the IPR beneficiary fails to meet the obligation set forth above, all outstanding IPR loan monies **must** be repaid to the Subrecipient.
 8. The Subrecipient may institute a policy that allows property to be transferred in the instance where the property is **transferred to and inhabited** by a household which is low-to-moderate income, has taken over the mortgage, and has not paid the beneficiary the equity value for the property transfer.
 9. In the case of death or institutionalization of the owner, the legal heirs may rent the property to a low- to moderate-income family, during the outstanding (unamortized) remainder of the term of the loan. The tenant's monthly rent to the Subrecipient would be based on their ability-to-pay. The period of the loan will exclude the number of months the house is unoccupied.
 10. Should the beneficiary fail to make the required monthly payments according the ability to pay, the missed payments are deferred. When the original term of the IPR loan expires these deferred payments may be:
 - a. Forgiven;
 - b. Refinanced with a new repayment plan; or,
 - c. Remain as a lien against the property to be recaptured in the future when the property is sold or by court order.
 11. In the case of non-occupancy of a house for 3 or more consecutive

months due to transfer of property, abandonment, institutionalization, death or any other reason, lien, rehabilitated or reconstructed units will become the property of the Subrecipient by way of foreclosure proceedings (must be included in the loan documents) unless an alternative outcome is negotiated with DHCD.

Outlined below are two examples of how the loan repayment would occur on a monthly basis (see Attachment 17):

Example # 1

Amount of loan:	\$15,000
Term:	10 years
Interest Rate:	0%

Multiply loan amount (\$15,000) by $1/120$ (0.00833) to determine the monthly repayment amount for 120 months (10 years \times 12 = 120 months [$15,000/120=125$]).

Ability to pay calculations, (Attachment 17), reveals that this household can afford a loan payment of \$30/month.

Amortized Loan Payment	\$125.00
Less Beneficiary Payment	<u>(\$30.00)</u>
Amount Forgiven	\$ 95.00

Example # 2

Amount of loan:	\$15,000
Term:	10 years
Interest Rate:	0%

Multiply loan in thousands (\$15,000) by 1/120 (.00833) to determine the monthly repayment amount for 120 months (10 years x 12 = 120 months [15,000/120=125]).

Ability to pay calculations (Attachment 17), reveal that this household can afford a loan payment of \$13/month, however \$25/month is the default minimum monthly payment established by DHCD guidelines.

Amortized Loan Payment	\$125.00
Less Beneficiary Payment	<u>(\$25.00)</u>
Amount Forgiven Monthly	\$ 100.00

12. The Rehab Program Oversight Board should adopt special policies for the evaluation of prior, existing debt in the ATP calculation and include them in the PMP. This must receive prior approval by DHCD.

Servicing the Loan

The Subrecipient or a qualified agency or institution which services loans under this program will be under *no liability* for loss of funds due to lack of repayment or default by program beneficiaries.

The responsibility of entities servicing loans is to collect, record, and forgive payments monthly. The servicing agents are to maintain records of loan balances, final payment due dates, issue annual statements to beneficiaries, and to make a good faith effort to collect delinquent loans.

Collection of delinquent loans may be conducted according to local policy (up to and including foreclosure) but must adhere to all requirements under the law related to the collection of delinquent or bad debts.

The Program Administrator may conduct annual reassessments of each recipient's income and ability-to-pay. The monthly payments and amounts forgiven may be revised based on changes in the ability-to-pay and in accord with the policies adopted by the Rehab Board.

Security Instruments and Closing Documents

1. **Deed of Trust** -- The Deed of Trust (Attachment 20) is a security instrument that secures the beneficiary's commitment to adhere

to the loan, resale, and residency requirements to the title of the house and property, and references the Deed of Trust Note (see Attachment 20). A recorded Deed of Trust must secure all IPR loans, including loans to heir occupied property. Owners of "Life Rights" properties and houses must sign the Deed of Trust in addition to the holder and occupant.

IPR loans may be placed in first, second or third, position on a property title. Once recorded, a Subrecipient may not subordinate its lien position to any other loan without prior DHCD approval. In addition, the Program Management Plan must stipulate under what special circumstances subordination will be considered, e.g., bankruptcy, removal of code violations, bills due to a medical emergency; and that the homeowner will be required to attend instruction on predatory lending prior to intermediary subordinating.

2. **Note** -- The Note is a security instrument that is the beneficiary's promise to adhere to all the commitments made in the Deed of Trust and stipulates when and how all of the terms of the loan are to be satisfied. It is not recorded, but must be held in safekeeping, (i.e., a safe deposit box or a drawer or cabinet that is routinely kept locked) by the Subrecipient until all the terms of the loan are

satisfied. At the end of the loan term, the Note **must** be marked "All Paid" or "Paid in Full" for all amounts paid and/or forgiven.

The Note should stipulate the following:

- Rate of interest;
- The term of the loan and the loan due date;
- The monthly ATP payment amount paid and/or forgiven payments or language referencing same;
- Late payment and default penalties;
- Time and location for payments;
- The complete address of the Trustee;
- Maintenance of property during term of loan;
- The Owner's requirement to obtain adequate insurance, with the Subrecipient listed as a loss payee;
- The Owner's requirement to obtain any septic system maintenance agreement as required by Virginia Department of Health;
- Resale and residency requirements;

- *Notice of Right to Cancel* attachment; and
- *Truth-in-Lending Disclosure Statement* attachment.

3. **Certificate of Satisfaction** – When the terms of the loan are satisfied, the Subrecipient is responsible for preparing a Certificate of Satisfaction. The Subrecipient is strongly urged to have the certificate recorded in the Clerk's Office of the Locality in which the property is located. If this is not possible due to distance, etc., the document should be sent to the homeowner (Certified mail/return receipt) advising them to have it recorded at their local Clerk's office.
4. **Notice of the Right to Cancel** -- is a closing document (see Attachment 19), which **must** accompany every **Deed of Trust and Note** and be provided to each beneficiary at closing. It allows every homeowner a three-day grace period between the signing of the Deed of Trust and the start of construction. During this time period, no activity regarding this loan may take place. This includes recordation of the Deed of Trust and issuance of the Notice to Proceed.
5. **Truth-in-Lending Statement** -- is a closing document (see Attachment 21), which **must** accompany the Deed of Trust and Note and be provided to each beneficiary at closing. It details the exact

amount of money borrowed including interest charges if any. Should the Ability-to-Pay calculation indicate the homeowner does not have repayment ability, this closing document **must** still accompany the Deed of Trust and Note.

6. **Appraisals and Title Search - appraisals are not required for rehab.**

The decision to obtain an appraisal may be made by the Rehab Board. Local programs should review the goals and nature of their program to determine the use of these procedures.

Title searches must be conducted on all properties assisted with IPR funds.

These searches are necessary to clarify a chain of title or to quiet any clouds on an existing title. A maximum of \$200 may be charged to the beneficiary's loan for title searches or appraisals. Any additional legal fees needed to close the loan may not exceed the \$750 maximum in eligible IPR costs.

7. **Condition of Title** -- Fee simple ownership is the most desirable condition of a property title. The benefit of this form of ownership is that the property ownership is unquestionable. Subrecipients must ensure that the program is executing a contract with the person (s) who legally own and control the property to be rehabilitated, thus assuring that the IPR loan is secured. It may be difficult, impossible, and sometimes expensive to identify the bona-fide property owner (s).

8. If ownership cannot be easily established, the Subrecipient may decide to document control of the property. A test for control could be documented payment of property taxes and insurance for at least the last three years.

9. DHCD will allow less than fee simple ownership. An attempt **MUST** be made to contact, by certified or registered mail, and obtain the signature of all owners on the Deed of Trust. Once control of the property is established, DHCD accepts signing of a recordable, enforceable Deed of Trust and Note by the controlling party. The **complete address** of the Trustee's residence or place of business must be included in the Deed of Trust. Efforts made to determine ownership must be documented in the client file. The Subrecipient must thoroughly assess the programmatic risk in this situation and make a sound decision accordingly.

10. Properties held by occupants who have a **recorded "life-estate"** are eligible. In such cases, the owner of the property and the occupants who have the "life-estate" must both sign the construction contract and Deed of Trust. Should the individuals who have "life-estate" cease to inhabit the property within the mandatory 10 year term of the loan, the owner of the property may either buy-out the loan at full value, less what has been paid or forgiven, or rent the property to an eligible LMI

occupant. The tenant's monthly rent must be based on their ability to pay to the Subrecipient. ***DHCD must be notified in writing of any change in "life-estate" status.***

Homeowner Agreement

The Subrecipient can choose between having a three-party agreement with the homeowner and the construction contractor or a two-party agreement with just the homeowner. A two-party agreement between the homeowner and the Subrecipient must state the responsibilities of both parties. In addition to referencing the amount of assistance, the agreement must incorporate the following:

- The construction specifications and contract with the contractor;
- The non-occupancy, resale or residency requirements;
- The program's role in inspecting and approving work and payments;
- Access to the property by contractors and program officials;
- Pre-construction clean up requirements;
- The change order process;
- The homeowner's role in approving all contractor payments;
- Home Maintenance Education Program attendance requirements;

- Documentation of adequate homeowners or hazard insurance must be obtained; and
- Documentation of an annual alternative septic system maintenance agreement must be obtained.

The agreement must be executed by whoever has been identified in the PMP as having the authority to contract on behalf of the Subrecipient and all owners. It is recommended that all signatures be notarized.

If the Subrecipient chooses to have a three-party agreement, all of the above-listed conditions must be incorporated into that agreement.

CHAPTER 5: PROJECT OVERSIGHT

General Subrecipient Guidance

Contracts for the new program year will not be issued until Project Completion Reports are submitted for past year's open set-ups and a Compliance Review has been conducted and any issues resolved satisfactorily.

Contracts will be limited to two set-ups per Subrecipient for those who serve one locality. Contracts will be limited to one set up per county for Subrecipients who serve more than one locality. No more than fifty percent of the units submitted can qualify under the failed absorption system definition.

There will be an incentive pool for submission of additional set-ups over and above the limit of two per Subrecipient (or one per county) after the first six months of the fiscal year. These additional set-ups will be approved on a first-come, first-served basis with DHCD verification. The incentive pool will be opened January 1, 2013.

An April 30th cut-off date for submission of set-ups for the current program year is hereby established. No set-ups will be accepted that are post marked after April 30th. No electronic Set-Ups will be accepted at any time.

All projects will have a DOT and Note lien term of 10 years.

All projects will have a 60 day construction contract and the Project Completion Report

must be submitted to DHCD within 120 days of Project Set Up. There are no exceptions to these policies, coordinate your work carefully.

The Rehabilitation Program Oversight Board

All Indoor Plumbing Rehabilitation Loan Programs being funded in whole or in part by DHCD must operate according to a written Program Management Plan (PMP), including any revisions that have been adopted by the Subrecipient's governing body.

Rehab Program Oversight Board must oversee the provision of program benefits and supervise the implementation of the adopted PMP.

The Rehab Board may be the jurisdiction's governing body, the non-profit's board of directors or a specially-appointed board which has this program as its only responsibility.

The Rehab Board must:

- Be composed of at least three members with at least one resident from each Locality served by the Subrecipient being a part of this membership. A local government administering its own IPR program MUST include the chief executive or designee on the Rehab Board;
- Have at least three members present to conduct business. The Program Administrator, the Rehab Specialist, or

any other person involved in the day-to-day oversight of the IPR program may not be a voting member of the board; and

- Have minutes taken at each meeting.

The Rehab Program Oversight Board's purpose is to provide fair and equitable application of the program to beneficiaries. The board **must** perform the following functions:

- Review, understand and implement the PMP and all revisions;
- Develop and adopt a set of operating rules or by-laws;
- Review staff work progress and performance;
- Approve contractors qualified as eligible to bid on work;
- Approve applicants for assistance and assure that benefits are being provided in accord with program guidelines and the applicant selection system is in accord with Virginia's Conflict of Interest requirements;
- Approve bids and contracts for work to be performed;
- Resolve complaints or disputes which may develop;
- Review, adopt and adhere to the annual Program Income Plan; and
- Grant special waivers on a limited case-by-case basis.

At the discretion of the Subrecipient, the Rehab Board may have other roles in the program administration although ultimate responsibility remains with the Subrecipient.

Program Outreach

Subrecipients must develop and conduct a program for soliciting, prioritizing, and approving applicants for rehabilitation. DHCD allows flexibility in the development of local guidelines, but once set, they must be followed.

Announcement of IPR program funds availability must:

- Be done annually;
- Be done publicly;
- Be uniform in that it is done similarly throughout the entire Locality (e.g. **not solely** through churches or social services);
- Be done throughout each jurisdiction in the Subrecipient's coverage area; and
- Not be discriminatory in terms of being targeted to select groups or in a way to exclude certain groups.

The selection process for approved applicants for IPR assistance must:

- Be fair and objective;
- Be followed in all cases;
- **Allow for expenditures in all jurisdictions administered by the**

Subrecipient [may require Subrecipients to prioritize waiting lists by jurisdiction rather than by one consolidated waiting list];

- May not favor one class of beneficiaries over another (e.g., elderly cannot be benefited to the exclusion of others, especially single parent households with children); and
- Be approved by the Subrecipient's local governing body or Board of Directors (note: this is approved as part of the Program Management Plan).

The Subrecipient's selection system shall operate on a point system which prioritizes applicants.

Applicant Policies and Procedures

To be eligible for assistance, an applicant **and his/her property must** meet the following conditions:

1. A house must exist and must have a “failed absorption system” or lack an indoor bathroom.
 - a. To be classified as having a “failed absorption system”, there exists a malfunctioning system in need of repair to the absorption system, deemed a health hazard by the VDH due to the presence of sewage on the surface of the ground, and in need of (VDH permit for) repair to the absorption system.” This is NOT intended to include units with plumbing maintenance issues.
 - b. Lacking a bathroom means the unit lacks a toilet within the footprint of the house, or contains a toilet within the footprint of the house, but the waste drops directly onto the ground under the house;
2. The applicant must have lived in his/her residence for at least one (1) year;
3. The gross household income must be at or below 80% of the median income adjusted for family size for the Locality (see Attachment 12);
 - a. All income and assets **must** be verified by independent source documentation such as employer verification, social security, unemployment office or W-2 forms prior to approval for assistance by the Rehab Board;
 - b. All income from assets and 10% of liquid assets or actual interest earned must be counted as income and added to the gross income of a household;
4. The occupant must have fee simple ownership or control of the property unless a formal written waiver of ownership is approved by DHCD; and
5. The household must have been selected according to an objective priority system that is overseen by the Rehab Program Oversight Board and recorded in the meeting minutes by beneficiary name.

A system for ranking applicants for IPR assistance is required. The following is a suggested point system for determining beneficiaries who have met the eligibility criteria.

- a. 5 points if the house “lacks a bathroom;”
- b. 1 point if female headed household (other than elderly) (requires the presence of one or more legal dependents under 18 years of age);
- c. 1 point for each dependent child (under 18 years of age);
- d. 2 points for elderly headed household;
- e. 2 points for each person with a handicap that relates to the need for accessibility improvements (other than elderliness);
- f. 2 points if very substandard dwelling unit (major structural and mechanical deficiencies); and
- g. 2 points if below 50% of the median income of the county/city.

NOTE: (Head of household is defined as the individual who provides the majority of the financial support for the family)

- 6. Priorities **must not** give undue preference to elderly households over those with children.

Creation of Homeownership

Home ownership is created when a family (1) which resides in a house without indoor plumbing and (2) does not legally own or legitimately control its place of residence, becomes the legal owner of its place of residence. Families who meet these conditions are eligible for assistance under the IPR Program.

Except for inactive program income, no IPR funds are to be used for down payment assistance or mortgage financing. IPR funds may be used for rehabilitation of a house that is purchased through other means by an eligible applicant, and lacks indoor plumbing.

Subrecipients may use lease-purchase as an avenue for assisting LMI households whose homes lack indoor plumbing. The Subrecipient may purchase a rental property, rehabilitate it, and then enter into a lease-purchase agreement with an eligible household for that property. The household **MUST** be identified and determined to be eligible **PRIOR** to acquisition of the property. To do so, the Subrecipient must utilize the Uniform Relocation Assistance & Real Property Acquisition Policies Act of 1970, as amended, to purchase the property and retain ownership of the property for a specified period of time until the occupant becomes the owner of the property. With DHCD concurrence, a renter may be relocated if no legal transfer is possible, and if the substandard property they vacate is demolished. Any Subrecipient planning to acquire property must contact its Community Development Specialist beforehand.

If the occupant of the leased property fails to become the owner of the property at the specified time, then the Subrecipient must retain ownership of the property until another LMI first time home buyer becomes the purchaser, or an LMI family which lived in a house which previously did not have indoor plumbing becomes the purchaser.

The proof of ownership and evidence of the property transfer must be formally documented and deeds recorded.

The Application Process

Applications for assistance **must** be filled out by a staff person of the Subrecipient or the Subrecipient must review the completed application with the applicant prior to approval.

After a household's preliminary eligibility is established and rehabilitation is expected to be performed within the next year, a formal application should be completed following these guidelines:

1. The applicant **must** assist in the provision of third-party documentation of income and assets of all members of the household over the age of 18.
2. The application **must** be taken at a place that is physically and geographically accessible to the applicant.
3. The application **must** contain the following information:
 - a. Name, address and phone number;
 - b. Household composition, i.e., all persons identified by name, age, relationship to the applicant, and employment status;
 - c. Source and amount of income for all household members including the name, address, and phone number of all employers of all household members;
 - d. Description and amount of all family assets including the names of financial institutions and account numbers;
 - e. Length of time property has been owned by the applicant;
 - f. Mortgage or lien holders including terms and monthly payments and account numbers;
 - g. Hazard insurance coverage including the name of insurance company and annual premiums; and policy expiration date;
 - h. Minority, ethnicity and handicapped status of household members;
 - i. Signature of the applicant(s) and the person completing the application;
 - j. Applicants must be advised of and sign a notice of the Federal Equal Credit Opportunity Act (Attachment 22); and
 - k. Utility costs will be calculated using the standard Utility Allowance formula for the

utilities to be used after the rehab.

4. Above the signatures **must** be a statement stipulating the right to verify all information and this wording:

Attention: It is a criminal offense under the code of the United States to make willful false statements or misrepresentation of any information provided in completion of this application.

I have reviewed the information recorded, and attest that, to the best of my knowledge nothing requested has been omitted or misrepresented on this application.

5. The applicant **and** appropriate members of the household must sign form letters to be sent to all employers, sources of income and holders of assets, requesting verification of income and assets. **All income and asset information must be verified by third party documentation.**
6. Applications must be reviewed and approved by the Rehab Board. Letters of approval and denial should be sent immediately after board action.

Alternatives to Rehab

In some cases it will be necessary or advisable to consider alternatives to rehabilitating a house. Alternatives may be necessary due to the cost of rehab, the sighting or condition of the original structure, or household circumstances. The most typical alternatives are permanent

relocation and/or substantial reconstruction. Finally, there may be other considerations that affect a Subrecipient's dealings with a potential beneficiary.

Permanent relocation

In some instances, it may be desirable to consider permanent relocation of a household from a dilapidated house. The relocation must be to a house which is already in standard condition or to a house which will undergo rehabilitation to DHCD's Housing Quality Standards (HQS). See Attachment 3.

The requirements of the **Uniform Relocation Assistance and Property Acquisition Act of 1970, as amended, apply to permanent relocations.** DHCD can provide the Locality with the requirements of this Act.

If the property to which the household is being relocated requires repairs to meet HQS, **the cost of the repairs and any relocation payments** (excluding moving expenses) **may not exceed appropriate cost limits.**

The property being vacated must be demolished by the Subrecipient.

Substantial Reconstruction

If the house is structurally unsound and rehabilitation costs will exceed cost limits, there is no reason not to demolish the property and build a substantially reconstructed house on the site. In choosing this alternative, the following policies must be adopted in the Program Management Plan:

- Substantial Reconstruction must be a last resort after other strategies have been explored and documented as infeasible; and
- It must be documented that Substantial Reconstruction was the most cost effective solution and that rehabilitation was not possible;
- The base bid for the substantially reconstructed house cannot exceed the cost limits (see Chapter 3):
- The cost of the proposed substantially reconstructed house must be less than the estimated cost of rehabilitating the existing home; and
- Exceptions cannot exceed the cost limits (see Chapter 3).

Other Considerations

The inhabitants of the house may have household or physical conditions that make rehab not desirable. These conditions may include potential or alleged criminal situations, situations involving certain physical or mental conditions of the primary occupant, or severely overcrowded situations.

It must be noted that **no individual or household is a presumed beneficiary of IPR funds**. If serious concerns arise for the health and safety of the occupants, or if there are official allegations of socially destructive behavior taking place in a home, **assistance may be deferred or terminated pending the completion of any official trial, hearing or investigation**.

Mobile Homes

Mobile homes are eligible for IPR funded rehabilitation provided they meet the tests of not having functional indoor plumbing, the head of household owns both the mobile home and lot upon which the mobile home is situated, and the base cost of rehabilitation will not exceed \$10,000 plus \$10,000 for well and septic. **No other exceptions apply**. If the rehab costs exceed these limits, the mobile home must be substantially reconstructed.

For the purposes of the IPR program, a mobile home is eligible for higher cost limits if it is a double-wide or equivalent with a continuous foundation and assessed as real estate by the Locality rather than personal property. If it was once a single-wide, but has had a permanent structure attached to it and is on a continuous foundation, DHCD must be consulted to determine the eligibility of this property for participation in the program.

The use of mobile homes to replace a mobile home or a stick-built home may occur only as the last alternative due to physical site constraints that prohibit stick-built house construction, and will require prior DHCD approval.

Home Maintenance Education Program

Subrecipients must incorporate their Home Maintenance Education Program (HMEP) into their IPR Management Plan. In order to be approved, programs **must** include the following components:

- An explanation of how the heating system, the plumbing system, the

electrical system, and the water heater function, a description of the proper use of these systems, and a description of potential common problems and solutions;

- An explanation and demonstration of how to properly clean and maintain these systems and the balance of the house on a routine, seasonal and annual basis; and
- Instruction on household budgeting and personal financial management. It must explain how to establish and use checking and savings accounts, how to select and purchase insurance coverage, how to establish and follow a household budget, and how to recognize and avoid predatory lenders.

DHCD strongly encourages conducting Home Maintenance training on a regular basis with small groups of beneficiaries or one-on-one. Neighboring Subrecipients may collaborate to maximize training efficiency. Note that it is NOT acceptable to hold only one training at the end of the contract year, due to the time lag between when the construction is complete and when the training is provided, and to the problems with accessing and holding funds.

Each training session shall be “hands on” in nature and take at least four hours, including one hour on budgeting. Contact your Community Development Specialist for illustrated training guides.

Once the HMEP plan has been approved by DHCD, Subrecipients may use up to 1% of base construction costs per unit up to a **maximum allowable cost of \$250, based on actual documented costs.**

Subrecipients will request reimbursement of these costs with the final drawdown. Along with the drawdown request, Subrecipients must include the following:

- An agenda that outlines the topics covered, the name of the individual(s) who taught each topic, and the length of time allocated to each topic;
- Sign-in sheet with at least one household member attending the entire session;
- Receipts or invoices listing all tools and cleaning supplies given to the attendees; and
- A signed certification listing all handouts, including all warranties (appliances and materials) given to attendee.

CHAPTER 6: CONSTRUCTION MANAGEMENT

Soliciting and Qualifying Contractors

1. The Subrecipient must formally solicit and pre-qualify contractors; prepare an Invitation to Bid and require sealed bids submitted on or before a specified date and time.
2. Solicitation **must** include an advertisement in a newspaper(s) that is generally circulated in the jurisdiction(s) in which the program will operate. This is in addition to the Minority and Female Owned Businesses and the Local Business and Employment advertisements placed at the beginning of the contract term.
3. Direct solicitation of good, local contractors should be done also. This can be done by contacting the Building Official and posting notices at local building supply stores.
4. Pre-qualification of construction contractors must be done through use of a standardized form (a model Contractor's Qualification Statement is included herein as Attachment 25). Information requested must include:
 - a. Type of work performed;
 - b. Recent projects completed with contractee's name;
 - c. Suppliers and credit established;
 - d. Bank references;
 - e. Insurance coverage;
 - f. Subcontractors utilized;
 - g. Proof of necessary license(s); and
 - h. Proof of training in Lead-Safe Work Practices, EPA Certified Renovation firm and Certified Renovator.
5. In order to assess qualifications and assure participation by qualified contractors, the program must adopt a set of qualification standards. More stringent standards may be required, but must, at a minimum, utilize the following standards:
 - a. Licensed by the Department of Professional and Occupational Regulation as a Class A, Class B, or Class C and licensed in the appropriate trades to be included;
 - b. Documented current liability insurance coverage of \$100,000 property and \$300,000 personal injury (minimum);
 - c. Good references from at least two jobs similar in work and dollar value to the work on which they are bidding.

- Subrecipient must document having checked references;
 - d. Have been in business as a Contractor for at least one year;
 - e. Have an established credit record with no outstanding or pending judgments or claims; and
 - f. Proof of training in Lead-Safe Work Practices and EPA Certified Renovation firm and Certified Renovator.
6. In limited areas a Subrecipient organization may also act as the Construction Contractor. If a Locality wishes to designate a Subrecipient to fill the contractor role, the Locality and Subrecipient must provide DHCD with sufficient prior information to adequately address concerns of conflict of interest, appropriate oversight and full compliance with procurement requirements.

The Bid Process

DHCD understands that a traditional bidding process may sometimes be in the best interest of a Subrecipient. In most cases, however, DHCD recommends an alternate process. Key elements of the recommended process are:

1. Contractors who have been pre-qualified are given approximately equal numbers of opportunities to bid, but are not given the opportunity to bid on every job;
2. A group of at least four contractors (Group A) is asked to submit individual bids on 2 or 3 units;
3. Another group of four contractors (Group B) is asked to submit individual bids on 2 or 3 units;
4. Bids are awarded to the lowest responsible bidders on a house by house basis; and
5. When the next group(s) of houses is ready to be bid, new groups of contractors are formed (i.e., 1-2 contractors from Group A, and 1-2 contractors from Group B are placed into new Groups 4 and 5) to avoid the same contractors bidding against each other each time.

This process tends to provide more work to more contractors, keeping a greater selection of contractors in the program overall.

Bid Review and Approval

1. Once bids are received the Rehab Board should make the following determinations:
 - a. There is more than one bid;
 - b. The bids are complete, signed and comparable; and
 - c. The bids are within DHCD's cost limitations.
2. If the answer to these questions is yes, then the Rehab Program Oversight Board should select the best bid. **HOWEVER**, if the cost of

- the best bid is not within 10% of the Rehab Specialist's cost estimate, a memo must be placed in the file, justifying the winning bidder's selection.
3. Each contract must be awarded to the lowest, responsible bidder among the qualified contractors who meet the conditions listed above and the following additional conditions:
 - a. The contractor is in good standing with the program (i.e. no outstanding complaints, credit problems, or workmanship issues);
 - b. The contractor's insurance is current; and
 - c. The contractor does not have more active jobs than can be completed in 90 calendar days (including this job).
 4. If the above conditions are not or cannot be met, the job should be awarded to the next lowest, responsible bidder.
 5. If one or more responsive bids result in a contractor receiving contracts that in total exceed \$50,000, the Program Administrator must obtain a completed IPR Disclosure Report (Attachment 26).
- Construction Contracts**
1. The construction contract includes an agreement, general conditions and federal contract conditions. The Rehab Board should have an attorney review and approve the contract used in the program. The attorney should be advised of DHCD recommendations and requirements.
 2. The following provisions must be included in the rehabilitation construction contract.
 - a. Date of contract;
 - b. Date (or number of days) until construction is to begin;
 - c. Completion date;
 - d. Method of payment, including timing of progress payments;
 - e. Insurance requirements;
 - f. Reference to master and job specifications;
 - g. Removal of debris and equipment;
 - h. Warranty requirements;
 - i. Non-assignment of contract clause;
 - j. Hold harmless clause;
 - k. Right of inspection - power of inspector;
 - l. Termination clause;

- m. Use of utilities;
- n. Change order procedure. This procedure includes any modifications to the contract, which changes cost, materials, work to be performed, or estimated completion date, must be in writing and signed by all parties prior to work being performed, including DHCD;
- o. Inclusion of bid and job specifications including materials;
- p. Amount of contract;
- q. Signature of parties to the contract;
- r. Federal contract conditions (see Attachment 27); and,
- s. Statement of compliance with all local requirements, building permit and inspections, and zoning;
- t. A "plain-language" exculpatory clause concerning events beyond the control of the contractor and a statement explaining that delays caused by such events do not constitute abandonment and are not included in calculating time frames for payment or performance;
- u. Disclosure of the cancellation rights of the parties; and
- v. Contractor's name, address, license/registration number, expiration date, license classification (A, B, or C), and license designation (Building [BLD] or Home Improvement Contracting [HIC]).

Contracting Rules and Recommendations

1. The Program Management Plan **must** contain guidelines that assure that construction work is done in a timely, cost effective manner that is minimally disruptive to the homeowner.
2. These guidelines **must** establish requirements regarding construction time, number of jobs, frequency of payments, and clean up.
3. DHCD has program wide **minimum** guidelines that you may adopt or revise to a more stringent standard. They are:
 - a. Rehab work on a single house **must be completed within 60 days of construction start.**
 - b. No contractor may be awarded more contracts than can be completed in **90 days.** (Two contracts in

60 days are the most that many rehab contractors are able to complete).

- c. Contractors may not be paid any funds until at least **25% of the work is completed, inspected, and accepted**. Contractors must be paid when at least **50% of the work has been completed or on a monthly basis**.
- d. Contractors must daily clean up all affected areas on the premises upon completion of work in that area, and clean the entire premises of construction related debris upon the completion of the project.

- c. What assistance will be provided for moving personal belongings;
- d. What assistance will be provided for lodging, if required;
- e. Must be approved by DHCD prior to relocation if the policy is an amendment to the Program Management Plan; and
- f. Be applied to all in the program in a fair and consistent manner, including informing households in writing of what types and levels of temporary relocation assistance are available.

4. Temporary Relocation

Policies must be adopted that will apply to Temporary Relocation in the event that occupants will be displaced while their house receives rehab work.

Subrecipients must incorporate their temporary relocation policy into their IPR Management Plan. The policy must identify:

- a. The circumstances under which temporary relocation will occur;
- b. Who will be responsible for making the decision;

Temporary Relocation may be provided due to inconvenience to the occupants. In cases where the occupant will be severely inconvenienced by the rehab activities, allowances should be made for temporary relocation. The Management Plan should adequately define “inconvenience” to the occupant.

Temporary relocation **MUST** be provided in almost all IPR units in which there is lead paint or a regulatory “presumption of lead paint.” In cases where it has been determined that it will be assumed that a house has lead-based paint and this paint will be disturbed during the rehab process, the

occupants must be temporarily relocated unless one or more of the following conditions exists:

- a. All households members are 62 years or older;
- b. The house was constructed after 1978;
- c. All interior work will be completed in an eight-hour period;
- d. All interior work will be completed in 5 consecutive days and the bedroom(s), bathroom, and kitchen can be isolated from the rehab work; or
- e. Only exterior work will be done.

Note that NO potential beneficiaries may be denied assistance or their priority affected due to the presumption of lead paint in the house in question.

DHCD acknowledges that temporary relocation requirements may result in an increase in costs. The temporary relocation costs will be above and beyond the standard rehab, administration, and soft cost limits. The maximum allowance is \$2,000 in IPR funds for temporary relocation activity.

DHCD encourages Subrecipients to identify creative ways to reduce

temporary relocation costs. This may include encouraging households to live temporarily with family and friends or the staggered use of vacant or substantial reconstruction units as temporary dwellings for households. Likewise Subrecipients might purchase a moveable storage unit that can be placed on site to hold the household's belongings.

Prior to any beneficiary being temporarily relocated, a written agreement must be signed between the beneficiary and the Subrecipient. This agreement must outline for how long the beneficiary will be relocated, what expenses will be paid by the Subrecipient, the cost limits for each type of expense, who is responsible for identifying where the beneficiary's possessions will be stored during the relocation, and who is responsible for placing the possessions in said storage.

It is anticipated that the \$2,000 relocation allowance will be used for furniture storage AND lodging if necessary.

Inspections

Every program is **REQUIRED** to have an ongoing and thorough quality control inspection program. Inspections **must** be conducted at least weekly and at critical times in the construction process (e.g. electrical and plumbing rough in). At the beginning of a project, independent DHCD HQS inspections must be conducted by

the Rehab Specialist and by the Program Administrator. **Each must sign, date and place in the project file their inspection forms which include the Section 8 Inspection Checklist and the one page DHCD Supplemental Checklist (one for pre-rehab and a separate supplement for post-rehab evaluation).**

In cases where the Program Administrator and the Rehabilitation Specialist are the same, the Program Administrator must ensure **independent** construction management or progress payment inspections. Inspections may be done by the Rehab Specialist, the local Building Official, or the Program Administrator depending upon the type of work, the timing, and amount of coordination required among the three.

1. The following inspections are required:
 - a. An electrical inspection by a certified electrical inspector;
 - b. A termite/infestation inspection by a licensed inspector before work on the unit is bid out;
 - c. A chimney inspection before work on the unit is bid out;
 - d. Blower door tests at the beginning and completion of project. When the initial blower test is completed, the entity responsible for the test **MUST** draft recommended

weatherization specifications to be included in the bid specs, in addition to providing a target air exchange rate. The second test must be completed prior to completion of punch list items. No blower door test is required pre-rehab for houses slated for substantial reconstruction, these houses only require the post-blower door test;

- e. Building Code Inspection at appropriate times;
 - f. A payment inspection by the Rehab Specialist before contractor payment requests are approved;
 - g. When a written complaint by a homeowner is received; and
 - h. When a change order is initiated.
2. Part of the inspection includes noting any interior or exterior failing paint condition. For the purposes of this program, failing paint includes:
 - a. Paint that is peeling, chipping, pitting or otherwise unstable;
 - b. Finishes on friction and impact surfaces that rub, bind, or crush;

c. Finished horizontal surfaces known to have been chewed by a child under the age of six; and

d. Bare soil onto which deteriorated paint might have fallen.

If no failing paint condition is noted, and no work will be conducted that will disturb more than two square feet of a painted surface, this is documented and no further lead requirements apply.

If a failing paint condition is noted, and the house was built prior to 1978, the Rehab Specialist and the Program Administrator must assume that the failing paint is lead paint. This triggers certain requirements:

- a. The work write up must incorporate “interim controls” and must meet lead-related regulatory requirements;
- b. The cost of the basic rehab work will not exceed the cost limits (see Chapter 3);
- c. The contractor and crew awarded this job must be trained in Lead-Safe Work Practices and possess EPA Certification as a Renovation firm and assign a Certified Renovator to the project;

d. The area(s) in which potentially lead-disturbing work occurred must be thoroughly cleaned;

e. At the completion of the work, a licensed Risk Assessor must complete appropriate sampling (Lead Clearance Test), and the sampling reveal that lead, if present, is within acceptable limits. If not, the area(s) must be cleaned again and additional samples taken; and

f. Temporary relocation will be required in most cases (see Temporary Relocation, page 6-6).

If a rehab is slated for a house occupied by a child who is known to have an elevated blood lead level, the Subrecipient **must** contact DHCD to determine appropriate steps.

3. The Rehab Specialist and the Program Administrator must conduct their substantial completion inspection using the work write-up and specifications. At these inspections, a **punch list** (a list of items to be completed or reworked after which the job is mutually determined to be complete) **must** be developed by the Rehab Specialist. The punch list must be signed by the contractor, homeowner and all

work approved by the Rehab Specialist.

4. Once all punch list items are completed the Rehab Specialist and the Program Administrator must conduct a final inspection using the Section 8 Inspection Checklist and the DHCD Supplemental Final Inspection form.

Completion and Final

Prior to the final payment, the Rehab Specialist and/or the Program Administrator must ensure that the following procedures **are completed and all necessary documentation is in the project file.**

- Punch list inspection and completion of punch list items;
- A complete review of all work items by Rehab Specialist, Program Administrator and Homeowner with photocopies retained in the project file;
- The final signed and dated DHCD HQS inspection form(s) from the Rehab Specialist and the Program Administrator;
- Copies of any issued permits;
- Building Code Inspection Reports;
- Lead-based Paint Clearance Reports;
- Presentation and explanation of all warranties to the homeowner; and
- Presentation of a final bill, release of liens, and Registers of Contractors, Subcontractors Suppliers (see Attachment 11).

Program Complaints

The Program must have written procedures for dealing with applicant, homeowner and contractor complaints. In so doing, the following policies must be a part of the complaint process:

- Persons whose applications are denied by the Rehab Board must be notified in writing that they have sixty (60) days from receipt of the notice to appeal the decision to the Rehab Board, Board of Directors, City Council or Board of Supervisors;
- All other complaints must be submitted in writing to the Program Administrator. The Program Administrator will investigate the complaint and respond to it in writing;
- The person making a complaint or an appeal must be notified, in writing, of the Program Administrator's decision with an explanation of reasons and the right of appeal to the Rehab Board whose decision, in turn, may be appealed to the Board of Directors or Board of Supervisors. Appeals involving contractor disputes may employ local building code review committees to resolve said disputes; and
- All appeals must be resolved in a timely manner. All written appeals

must be addressed within 15 days of the appeal and resolved within 30 days of the appeal and retained for review.

- DHCD recommends that verbal complaints be speedily and objectively investigated in order to prevent time consuming written complaints later.

DHCD has found that there is almost always some validity to every complaint, although the facts may not always correspond to the whole of the complaint.

Usually, complaints can be resolved or minimized by timely communication among all parties, and a positive approach to identifying and resolving the real problem. Defensiveness and non-communication compounds a complaint into a time-consuming problem for your program and DHCD.

DHCD will not investigate a complaint unless it is in writing, and has been thoroughly addressed through the Subrecipient's written complaint process.

Rehabilitation Standards

The Rehab Specialist must evaluate each unit on the basis of common sense and cost effectiveness to determine if the unit is "Suitable for Rehab" or "Unsuitable for Rehab". The definitions are as follows:

Suitable for Rehab

Any LMI-occupied substandard residential unit which can be brought up to DHCD HQS with an IPR investment not to exceed the base cost limits plus exceptions, and

with a life expectancy of 15 years or more.

Unsuitable for Rehab

Any LMI-occupied substandard residential unit which cannot be brought up to DHCD HQS with an IPR investment not to exceed the base cost limits plus exceptions, and with a life expectancy of less than 15 years. Additionally, units having major structural conditions that are inadequate due to poor original construction, or having failing foundations, floors, walls, ceilings, roofs, and exterior systems may be considered unsuitable for rehab. System failures or violations in electrical, plumbing, doors, windows, and other building components may also be considered. The Rehab Specialist must document specific conditions and determine that at least 50% of the house must be demolished in order to comply with DHCD HQS.

All work must be done in accordance with the DHCD HQS Field Interpretation Guide (see Attachment 3).

Prior to rehabilitation, both the Rehab Specialist and the Program Administrator shall make an independent inspection of the property using the DHCD HQS checklist. *Subsequently, they must jointly determine:*

1. That all HQS violations will be addressed by the work write-up; and
2. That no improvements will be made that are not justified as eligible by DHCD's HQS.

Change Orders

Change orders are strongly discouraged in the IPR Program. There are two kinds of change orders:

- Change orders that relate to eligible HQS deficiencies; or
- Time extension change orders which must be initiated as soon as the need for them is determined. They must be fully executed no later than the last day of the construction contract.

Any change order must receive DHCD's prior written approval regardless of the amount.

If the change order increases the construction contract amount over \$50,000, a Contractor's Disclosure Report must be obtained unless already on file.

Payment for change orders must be made with the final construction draw.

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CHAPTER 7: FEDERAL REQUIREMENTS

NEPA Requirements

The environmental effects of each activity carried out in the IPR Program will be minimally assessed in accordance with the selected provisions of the National Environmental Policy Act of 1969 (NEPA) and the related authorities listing in HUD's implementing regulations at 24CFR58.

DHCD will certify that it has complied with NEPA and Request the Approval of the Release of Funds. Since all of the activities in the IPR programs are for the rehabilitation of existing, single-family, owner-occupied structures, DHCD will aggregate this similar group of activities into one project for environmental review purposes. This means that the IPR Programs will be defined as one project with one Environmental Review Record for the state.

For environmental review purposes, the activities undertaken in the IPR Program will be determined Categorical Excluded subject to the National Environmental Policy Act (NEPA) requirements. The Subrecipient must complete, sign and date the Statutory Checklist for each property and comply with whatever mitigation is deemed necessary. The Statutory Checklist and all attachments must be submitted to DHCD along with the Project Set-Up. (See Attachment 28)

Any house constructed more than 50 years ago, listed on the National Register of Historic Properties or eligible for listing

or scheduled for demolition and substantial reconstruction shall be documented on the Department of Historic Resources "Project Review Form" with appropriate responses to move forward with the project. (See Attachment 28)

If a project receiving IPR funding is located in a floodplain, appropriate mitigating measures must be taken. For structures, flood insurance is required and **MUST** be maintained by the homeowner so long as the structure remains.

Fair Housing Requirements

A Subrecipient must take one action in the areas of enforcement and/or promotion of activities that affirmatively further fair housing for each contract year. A different action/activity must be conducted for each succeeding contract year. The Program Administrator should be assigned responsibility for ensuring that such action is taken.

At least one of the following actions (additional actions may be approved by DHCD) must be selected, completed, and documented during the contract year.

- Adopt a resolution endorsing the concept of fair housing and advertising through the local media;
- Attendance by a member of the Locality's governing body or chief administrative official and a second

appropriate representative (Realtor, banker, etc) at a fair housing workshop approved by DHCD;

- Provide all program beneficiaries with a copy of DHCD's fair housing brochure;
- Enlist the participation of local realtors, lenders and homebuilders in an agreement and promotion of affirmative marketing, open housing and review of underwriting /credit criteria, etc. Publish such agreements in a local paper;
- Conduct public educational programs for local housing consumers, providers, and/or financial institutions, regarding fair housing issues;
- Develop a public information program using local newspapers, radio stations, bulletin board, churches, utility bill mailings, to insure that all segments of the community are aware of fair housing requirements, especially Realtors, landlords, financial institutions, and the minority community;
- Develop a fair housing assistance program to make housing opportunities available in non-minority areas; or
- Distribute copies of the fair housing brochures at local public events.

Equal Opportunity

Subrecipients must adopt a Section 3 Business and Employment Plan (see Attachment 29A).

The plan must require that prior to any contracting, major purchases or hiring, Subrecipients will develop a list of jobs, supplies and contractors likely to be utilized during the contract period.

The Subrecipient must place two notices. The first is a Section 3 Business and Employment Notice (see Attachment 29B) which must be published in a local newspaper (a newspaper which has a general circulation covering the entire Locality and which is considered the primary source for local news in every county and city within the coverage area). This advertisement must be placed prominently in the newspaper as a display ad and contain the information in the model notice. This is in addition to the advertisement for contractors discussed in Chapter 6.

the second is a Minority- and Female-Owned Business Notice which must be published as a legal notice in a regional paper (a two-county daily paper with a circulation of at least 15,000). This notice must contain the information in the Attachment 30 model.

The Subrecipient must provide prospective bidders with a list of county or city residents and Section 3 and minority, and female-owned businesses which have responded to solicitations. This listing must be contained in the bid documents and must include the address and type of service, equipment and

supplies that the business provides. The Subrecipient must notify all persons who have responded to Local Section 3 Business and Employment and Minority and Female Owned Business solicitations of the availability of employment and contracting opportunities and how to apply.

Lead-Based Paint

Following are the steps to be used in the rehabilitation of housing. Please note mandatory actions to be taken to avoid problems related to lead based paint. These are also addressed in Chapter 6:

1. Independent inspections of a unit are conducted by the Rehab Specialist and by the Program Administrator. Part of the inspection includes noting any interior or exterior failing paint condition. For the purposes of this program, failing paint includes:
 - Paint that is peeling, chipping, pitting or otherwise unstable;
 - Finishes on friction and impact surfaces that rub, bind, or crush;
 - Finished horizontal surfaces known to have been chewed by a child under the age of six; and
 - Bare soil onto which deteriorated paint might have fallen.
2. If no failing paint condition is noted, and no work will be conducted that will disturb more than two square feet of a painted surface, this is documented and no further lead requirements apply.
3. If a failing paint condition is noted, and the house was built prior to 1978, the Rehab Specialist and the Program Administrator must assume that the failing paint is lead based paint. This triggers certain requirements:
 - The work write up must incorporate “interim controls” and meet certain lead-related regulatory requirements;
 - The cost of the basic rehab work will not exceed the cost limits (see Chapter 3);
 - The contractor and crew awarded this job must be trained in Lead-Safe Work Practices and certified in EPA’s Renovation, Repair and Painting program as a Certified Renovation firm and assign a Certified Renovator to the project;
 - The area(s) in which potentially lead-disturbing work occurred must be thoroughly cleaned by the contractor;
 - At the completion of the work, the Risk Assessor must complete appropriate sampling (Clearance Test), and the sampling reveal that lead, if present, is within acceptable limits. If not, the area(s) must be cleaned again and additional samples taken; and

- Temporary relocation will be required in most cases (see Temporary Relocation, Chapter 6).

4. If a rehab is slated for a house occupied by a child who is known to have an elevated blood lead level, the Subrecipient must contact DHCD to determine appropriate steps.

CHAPTER 8: DHCD OVERSIGHT

Role of the Community Development Specialist

The DHCD Community Development Specialist is the Subrecipient's main contact through the course of the contract. The Community Development Specialist has two responsibilities:

- Provide direct technical assistance to Subrecipients in housing rehabilitation and compliance issues; and
- To conduct formal on-site compliance reviews of Subrecipient records and work performed to assure adherence to all program requirements.

Technical Assistance

Technical assistance is provided at the request of the Subrecipient or as needed by the Community Development Specialist. It may be performed on site, via postal service mail, email, telephone, or at scheduled, statewide training events. On-site technical assistance visits always include file reviews.

Compliance Reviews

Compliance reviews are conducted by Community Development Specialists on each Subrecipient at least every two years in which any funds have been expended. They are announced by a letter from the Program Administration and Assistance Management Office to the Director or Chief Administrator of the Subrecipient.

The letter will announce the date, time, and place of the review, and detail the information that will be reviewed.

Reviews are conducted at the Subrecipient's office, and 25% of the rehabilitated houses, as determined by the Community Development Specialist, are inspected.

At the time of the review, the Community Development Specialist will meet with the Subrecipient Director, Project Administrator, and Financial Manager to discuss the process and identify the records to be reviewed. The Rehab Specialist should be present for housing inspections during a compliance review. The Community Development Specialist will need office space to work and access to all files, and will use a standardized checklist (which is available upon request). At the end of the Review, an Exit Interview is conducted with the Chief Administrator, Project Administrator and Financial Manager.

The Report

After the Review, a letter will be sent to the Subrecipient board and/or the administrative agency that contains:

1. An assessment of the program management; and
2. Any findings, concerns, or recommendations about the program implementation.

- a. finding is a statement of fact that the program is not operating according to the contract, this manual, and the Program Management Plan. A finding stipulates what has occurred, why it is not in compliance, and what must be done to bring the program into compliance.
 - b. If an action will result in noncompliance, if not corrected, a concern will be noted to request the implementation of corrective action. If corrective action is not taken, a finding will be made during a subsequent review.
 - c. If the Community Development Specialist determines that there is not a finding or concern, but there is a need for improvement in the Subrecipient's performance, a recommendation may be made.
 - d. A response to a recommendation is not always required, but careful consideration should be given to the issues addressed.
3. Questioned costs about financial management: If the review indicates that funds may have been obligated or spent in a manner not in compliance with this manual or the IPR contract, the use of a portion or all affected funds can be questioned. The Subrecipient will be asked to justify the propriety of all questioned costs. Costs which cannot be justified will be disallowed by DHCD and must be repaid by the Subrecipient.
4. Corrective actions: The last section of the compliance review letter specifies what corrective action, if any, needs to be taken to resolve any findings or concerns. This section will also indicate how and by when a response to DHCD is required.
5. Unresolved Issues: Occasionally, there are outstanding issues that the Subrecipient is committed to completing. We may ask that certification of completion is provided to DHCD.

The Response

If the compliance review letter requires a response, the Subrecipient must provide documentation within thirty (30) days that any findings or concerns have been resolved or addressed.

Any questioned costs must be resolved within thirty (30) days or the costs may be disallowed.

Audits

The audit requirements are set forth in OMB Circular A-133, *"Audits of Institutions of States, Local Governments and Nonprofit Institutions."* Auditors procured to conduct the local audit must be familiar with the requirements of OMB Circular A-133. An organization wide

audit must be conducted by an independent certified public accountant each year in which \$500,000 in federal funds is received. In general, audits of federal funds received by a Subrecipient will be conducted as part of the regular audit cycle. The Audit must be submitted to DHCD within 30 days of completion. Subrecipients not subject to the federal annual audit requirement must submit a letter to PMO's Financial Analyst, Richmond Office, stating this fact within 30 days of acceptance of the audit.

Any returned IPR funding and/or Program Income MUST BE remitted by check, made payable to "*Treasurer of Virginia*" and identified on the check as "Returned Funds," along with the contract number and forwarded to DHCD, Community Development Division, Fiscal Analyst, 600 East Main Street, Suite 300, Richmond, Virginia 23219.

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ATTACHMENTS

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